HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING
OCTOBER 23, 2013
APPLICATION SUMMARY

NAME OF PROJECT:	Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Medical Center
PROJECT NUMBER:	CN1307-027
ADDRESS:	975 East 3rd Street Chattanooga (Hamilton County), Tennessee 37403
LEGAL OWNER:	Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Medical Center 975 East 3rd Street Chattanooga (Hamilton County), Tennessee 37403
OPERATING ENTITY:	Not Applicable
CONTACT PERSON:	Joseph M. Winick (423) 778-8088
DATE FILED:	July 15, 2013
PROJECT COST:	$4,307,699
FINANCING:	Cash Reserves
PURPOSE OF REVIEW:	Initiation of positron emission tomography (PET) services and the acquisition of a PET/CT Scanner

DESCRIPTION:

Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Medical Center (EMC) is seeking approval for the initiation of positron emission tomography services (PET) and the acquisition of a PET/CT Scanner.

CRITERIA AND STANDARDS REVIEW

POSITRON EMISSION TOMOGRAPHY SERVICES

1. Applicants proposing a new stationary PET unit should project a minimum of at least 1,000 PET procedures in the first year of service, building to a minimum of 1,600 procedures per year by the second year of service and for every year thereafter. Providers proposing a mobile PET unit should project a minimum of at least 133 mobile PET procedures in the first year of service per day of operation per week, building to an annual minimum of 320 procedures per day of operation per week by the second year of service and for every year thereafter. The minimum number of procedures for a mobile PET unit should not exceed a total of 1600 procedures per year if the unit is operated more than five (5) days per week. The application for mobile and stationary units should include projections of demographic patterns, including analysis of applicable population-based health status factors and estimated utilization by patient clinical diagnoses category (ICD-9).

   For units with a combined utility, e.g., PET/CT units, only scans involving the PET function will count towards the minimum number of procedures.

   The applicant projects it will perform 1,055 PET procedures in the first year of operation and 1,330 PET procedures during the second year of operation. The applicant does not expect to reach the 1,600 procedure threshold until the third year of operation.

   It appears the applicant will meet the criterion in the first year, but not in the second year.

2. All providers applying for a proposed new PET unit should document that the proposed location is accessible to approximately 75% of the service area's population. Applications that include non-Tennessee counties in their proposed service areas should provide evidence of the number of existing PET units that service the non-Tennessee counties and the impact on PET unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity.

The applicant states that 75% of the service area population has driving time of 40 minutes or less. The applicant acknowledges that patients residing outside the service area utilize EMC. Those patients include residents in counties of Tennessee outside the service area and residents of Alabama, Georgia, and North Carolina.

It appears that this criterion has been met.

3. All providers should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

The applicant acknowledges the geographic availability of PET/CT services but notes that there is an issue of financial access. The applicant also notes that EMC currently refers patients to existing PET/CT providers but being an academic medical center, not having PET/CT capabilities delays and impairs the efficacy of care provided and continuity of care.

It appears that this criterion has been met.

4. Any provider proposing a new mobile PET unit should demonstrate that it offers or has established referral agreements with providers that offer as a minimum, cancer treatment services, including radiation, medical and surgical oncology services.

The applicant is not proposing mobile PET services.

This criterion does not apply.

5. A need likely exists for one additional stationary PET unit in a service area when the combined average utilization of existing PET service providers is at or above 80% of the total capacity of 2,000 procedures during the most recent twelve-month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per PET unit is based upon the following formula:

Stationary Units: Eight (8) procedures/day x 250 days/year = 2,000 procedures/year

Mobile Units: Eight (8) procedures /day x 50 days/year= 400 procedures/year

The provider should demonstrate that its acquisition of an additional stationary or mobile PET unit in the service area has the means to perform at least 1,000 stationary PET procedures or 133 mobile PET procedures per day of operation per week in the first full one-year period of service operations, and at least 1,600 stationary PET procedures or 320 mobile PET procedures per day of operation per week for every year thereafter.

The existing providers in the service area operated at 48.8% of capacity in 2012. The applicant expects to meet the 1,000 procedure threshold in Year 1 but does not expect to reach the 1,600 procedure threshold until the third year of operation.

It appears this criterion is not met.

6. The applicant should provide evidence that the PET unit is safe and effective for its proposed use.

   a. The United States Food and Drug Administration (FDA) must certify the proposed PET unit for clinical use.

      A FDA approval letter was included in the attachments to the application.

      It appears that this criterion has been met.

   b. The applicant should demonstrate that the proposed PET procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

      A letter from the applicant's architect indicates compliance with current building codes and Tennessee Department of Health licensing requirements.

      It appears that this criterion has been met.

   c. The applicant should demonstrate how emergencies within the PET unit facility will be managed in conformity with accepted medical practice.

      The applicant provided a copy of the policy pertaining to emergencies in the original application.

It appears that this criterion has been met.

d. The applicant should establish protocols that assure that all clinical PET procedures performed are medically necessary and will not unnecessarily duplicate other services.

The applicant provided a copy of a policy pertaining to medical necessity.

It appears that this criterion has been met.

e. The PET unit should be under the medical direction of a licensed physician. The applicant should provide documentation that attests to the nature and scope of the duties and responsibilities of the physician medical director. Clinical supervision and interpretation services must be provided by physicians who are licensed to practice medicine in the state of Tennessee and are board certified in Nuclear Medicine or Diagnostic Radiology. Licensure and oversight for the handling of medical isotopes and radiopharmaceuticals by the Tennessee Board of Pharmacy and/or the Tennessee Board of Medical Examiners—whichever is appropriate given the setting—is required. Those qualified physicians that provide interpretation services should have additional documented experience and training, credentialing, and/or board certification in the appropriate specialty and in the use and interpretation of PET procedures.

The applicant's medical director will be Dr. Pradeep Kumar Jacob. His CV indicates that he is Board-certified in radiology and nuclear medicine. Dr. Jacob is also listed on EMC's license from the Department of Environment and Conservation, Division of Radiological Health.

It appears that this criterion has been met.

f. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

The applicant is a major medical center and provides a three page list of various transfer agreements.

It appears that this criterion has been met.

7. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

   The applicant states it has in the past and will continue in the future to comply with all data reporting requirements of the HSDA pertaining to the utilization of major medical equipment.

   It appears that this criterion has been met.

8. In light of Rule 0720-4-.01 (1), which lists the factors concerning need on which an application may be evaluated, the HSDA may decide to give special consideration to an applicant:

   a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

      The applicant provides documentation from the U.S. Health Resources and Services Administration that indicates that portions of Hamilton County and the nine other counties in the serviced area are medically underserved areas.

      It appears that this criterion has been met.

   b. Who documents that the service area population experiences a prevalence, incidence and/or mortality from cancer, heart disease, neurological impairment or other clinical conditions applicable to PET unit services that is substantially higher than the State of Tennessee average;

      The applicant provides age adjusted mortality data for Heart Disease, Cancer, Alzheimer's, and Stroke in each of the nine service area counties and the State of Tennessee overall. Six of the nine counties had higher mortality rate for heart disease than the state overall, five of the nine for cancer, five of the nine for Alzheimer's and six of the nine for stroke. Hamilton County was higher than the state average in Alzheimer's only. Even though the majority of the counties had mortality rates higher than

the state average, it is unknown if the service area in total is higher than the state average.

It is unclear as to whether this criterion has been met.

c. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program and/or is a comprehensive cancer diagnosis and treatment program as designated by the Tennessee Department of Health and/or the Tennessee Comprehensive Cancer Control Coalition; or

The applicant is both a safety net hospital and a children's hospital.

It appears that this criterion has been met.

d. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program.

The applicant contracts with four TennCare MCOS and participates in the Medicare program.

It appears that this criterion has been met.

Staff Summary

The following information is a summary of the original application and all supplemental responses. Any staff comments or notes, if applicable, will be in bold italics.

EMC plans to initiate PET/CT services in the hospital's nuclear medicine area of the existing outpatient imaging department. Due to the weight of the scanner the floor and structural supports will to be reinforced. There will be no new construction. EMC plans to purchase a Phillips Gemini TF Big Bore PET/CT Scanner. EMC will obtain the radiopharmaceutical agents needed for the PET Scanner though a provider agreement with Triad Isotopes, Inc.

Need

- The proposed PET/CT unit fills an essential gap in diagnostic capability in a number of service lines at EMC including neurosciences and oncology
- EMC's stroke program is recognized as a leading program in the nation and a top epileptologist* was recently recruited
- EMC is the only provider in a 100 mile radius of Cyberknife services, a tool for non-invasive surgery of tumors. A PET/CT would aid in diagnosis, assessment, and planning to ensure the treatment plan is progressing to advance and improve patient outcomes
- EMC offers the only 340B** pharmacy program in the region because of its disproportionate share of low income patients, which includes the provision of chemotherapeutic drugs
- EMC is the safety net hospital for Southeast Tennessee
- EMC presents a use rate methodology in the first supplemental response which suggests that the PET use rate in the service area is 9% lower than the state overall
- In the first supplemental response EMC also provide a methodology based on select disease incidence and prevalence indicating there is a need for 983 PET scans

Note to Agency members: *An epileptologist is a neurologist that specializes in the treatment of epilepsy.

*** According to the US Department of Health and Human Services, Health Resources and Services Administration (HRSA) website, nonprofit health care organizations that have certain Federal designations or receive funding from specific Federal programs are eligible organizations (covered entities) that can register, be enrolled and purchase discounted drugs through the 340B Program. These include Federally Qualified Health Centers, Ryan White HIV/AIDS Program grantees, and certain types of hospitals and specialized clinics.***

An overview of the project is provided on pages 11-13 of the original application with corrections on pages 2-6 of the first supplemental response.

The applicant seeks to initiate the PET/CT service in October 2014.

Ownership

EMC is owned by the Chattanooga-Hamilton County Hospital Authority. EMC is part of Erlanger Health System, which has 788 licensed beds in Hamilton County. The components of Erlanger Health System includes Erlanger Medical Center (567 licensed beds) and Children's Hospital @ Erlanger (121 licensed beds) on the main campus; Erlanger East Hospital (43 licensed beds) on the East Campus and Erlanger North Hospital (57 licensed beds) on the North Campus. In addition to the hospitals in Hamilton County, Erlanger Health System includes Erlanger Bledsoe (25 licensed beds) in Bledsoe County.

Facility Information

- The PET Scanner will be placed in the Erlanger Medical Mall, which is on the main campus of Erlanger Health System. The Medical Mall currently offers CT, ultrasound, nuclear medicine, mammography, general radiology and x-ray services. A floor plan drawing is included in on page A-20 of the original application.
- The Joint Annual Report for 2012-Provisional indicates that EMC which includes the Children's Hospital is licensed for 688 beds (initially reported as 690 beds and since corrected) and staffed 491 beds. Licensed bed occupancy was 54.8% and staffed bed occupancy was 77.0%.

The following provides the Department of Health's definition of the two bed categories pertaining to occupancy information provided in the Joint Annual Reports:

- *Licensed Beds - The maximum number of beds authorized by the appropriate state licensing (certifying) agency or regulated by a federal agency. This figure is broken down into adult and pediatric beds and licensed bassinets (neonatal intensive or intermediate care bassinets).*
- *Staffed Beds - The total number of adult and pediatric beds set up, staffed and in use at the end of the reporting period. This number should be less than or equal to the number of licensed beds.*

Service Area Demographics

EMC's declared service area includes a primary service area of Hamilton County and a secondary service area that includes: Bledsoe, Bradley, Grundy, Marion, McMinn, Meigs, Polk, and Sequatchie Counties.

- The total population of the primary service area is estimated at 345,447 residents in calendar year (CY) 2013 increasing by approximately 2.0% to 352,2340 residents in CY 2017.
- The total population of the secondary service area is estimated at 286,241 residents in calendar year (CY) 2013 increasing by approximately 2.9% to 294,557 residents in CY 2017.
- The overall statewide population is projected to grow by 3.7% from 2013 to 2017.
- The latest 2013 percentage of the proposed primary service area population enrolled in the TennCare program is approximately 15.8%, in the secondary service area 20.6% as compared to the statewide enrollment proportion of 18.4%.

Source: The University of Tennessee Center for Business and Economic Research Population Projection Data Files, Reassembled by the Tennessee Department of Health, Division of Policy, Planning and Assessment, Office of Health Statistics.

Service Area Historical Utilization

PET Utilization Trends by Provider in the Service Area

				2010	2011	2012	'10-'12	2012
County	**Provider**	**Fixed Units**	**Mobile units (days/wk.)**	**Procs.**	**Procs.**	**Procs.**	**% change**	**% of Standard***
Bradley	Cleveland Radiology Associates (CRA)	0	1 (3)	537	530	398	-25.9%	33.2%
Hamilton	Chattanooga Imaging East	1	0	619	519	527	-14.9%	26.4%
Hamilton	Diagnostic PET/CT of Chattanooga	1	0	1,331	1,225	1,179	-11.4%	59.0%
Hamilton	Memorial Hospital	1	0	941	904	720	-23.5%	36.0%
McMinn	Athens Reg. Medical Center	0	1 (1)	158	187	180	+13.9%	45.0%
Rhea	CRA/ Rhea Medical Center	0	1 (0.5)	46	43	43	-6.5%	21.6%
TOTAL		**3**	**3 (4.5)**	**3,632**	**3,408**	**3,047**	**-16.1%**	**39.1%**

**The State Health Plan Certificate of Need PET Standards and Criteria states that "A need likely exists for one additional stationary PET unit in a service area when the combined average utilization of existing PET service providers is at or above 80% of the total capacity of 2,000 procedures during the most recent twelve-month period reflected in the provider medical equipment report maintained by the HSDA".*

- The chart above indicates that PET utilization is declining in the service area.
- One provider experienced an increase in utilization between 2010 and 2012, Athens Regional Medical Center, which utilizes a mobile PET Scanner one day per week.
- The other 5 PET providers experienced a decline in utilization during this time period ranging from 6.5% at CRA/Rhea Medical Center operating a mobile scanner one-half day per week to 25.9% at CRA in Bradley County operating a mobile PET service 3 days per week.
- Overall, PET utilization in the service area declined 16.1% between 2010 and 2012.
- None of the existing PET providers in the service area are operating above the 80% standard needed to justify an additional PET unit.

PET Market Share by Facility by County

County	CRA	Chatt. Imaging East	Diag. PET/CT	Memorial	Athens Reg.	CRA/Rhea	Other	Total County Patients
Bledsoe	0%	22.5%	32.5%	5.0%	0%	2.5%	37.5%	**40**
Bradley	59.5%	12.1%	13.2%	9.9%	0%	0%	5.3%	**454**
Grundy	0	10.9%	16.4%	3.6%	0%	0%	68.1%	**55**
Hamilton	0.3%	22.0%	42.9%	30.8%	0%	0.2%	3.9%	**1,294**
McMinn	6.2%	1.8%	6.2%	1.8%	28.1%	0%	55.9%	**338**
Marion	0%	15.1%	58.5%	23.7%	0%	0%	2.6%	**152**
Meigs	0%	1.5%	11.9%	6.0%	6.0%	0%	68.7%	**67**
Polk	60.3%	8.7%	10.3%	2.4%	11.9%	0%	6.4%	**126**
Rhea	6.2%	14.5%	28.6%	14.1%	9.7%	17.2%	9.7%	**227**
Sequatchie	0%	7.4%	65.4%	19.8%	0%	0%	7.4%	**81**
TOTAL	**13.7%**	**15.3%**	**31.3%**	**19.2%**	**4.8%**	**1.5%**	**14.2%**	**2,834**

Source: HSDA Equipment Registry

The chart above reflects the following:

- CRA has PET market share of approximately 60% in Bradley and Polk Counties.
- Chattanooga Imaging East has market share in excess of 20% in Bledsoe and Hamilton Counties
- Diagnostic PET/CT of Chattanooga has market share in excess of 20% in Bledsoe, Hamilton, Marion, Rhea, and Sequatchie Counties

- Memorial has market share of approximately 20% in Sequatchie County and greater than 20% in Hamilton and Marion Counties.
- Athens Regional has greater than 20% market share in McMinn County
- CRA/Rhea has its greatest market share of 17.2% in Rhea County
- Other providers located outside the service area have significant market share in Bledsoe County (37.5%), Grundy County (68.1%), McMinn County (55.9%), and Meigs County (68.7%)
    - The majority of Bledsoe County residents seeking PET services outside the service area in 2012 went to Cumberland Medical Center in Cumberland County
    - The majority of Grundy County residents seeking PET services outside the service area went to the Tennessee PET Scan Center in Rutherford County
    - The majority of McMinn County residents seeking PET services outside the service area went to PET providers in Knox County
    - The majority of Meigs County residents seeking PET services outside the service area went to PET providers in Knox County
- The provider with the greatest market share in the service area overall in 2012 was Diagnostic PET/CT of Chattanooga with 31.3% followed by Memorial Hospital with 19.2%.

Service Area Dependence

Provider	Service Area Patients	Total Patients	% Service Area Dependence
Cleveland Radiology Associates (CRA)	389	390	99.7%
Chattanooga Imaging East	434	447	97.1%
Diagnostic PET/CT of Chattanooga	886	900	98.4%
Memorial Hospital	545	548	99.5%
Athens Reg. Medical Center	136	180	75.6%
CRA/ Rhea Medical Center	42	43	97.7%

The chart above reflects the following:

- Except for Athens Regional Medical Center which is over 75% dependent on service area patients for its PET service utilization, the other 5 service area providers were all over 97% dependent on service area residents for their PET utilization.

Applicant's Projected Utilization

- Based on the incidence and prevalence of epilepsy, Parkinson's, Huntington's, Alzheimer's, lung cancer, other cancer, and cardiac, the applicant estimates a need for 3,850 PET scans in the service area
- The applicant projects to perform 1,055 PET scans during the first year of operation, 1,330 PET scans during the second year of operation, and 1,604 PET scans in the third year of operation. The utilization standard for PET in the State Health Plan is 1,600 PET scans annually.

Project Cost

Major costs are:

- PET Scanner cost of purchase plus maintenance contract of $3,324,276 or 77.2% of total cost
- The other major cost is construction plus contingencies of $771,885 or 17.9% of the total cost
- For other details on Project Cost, see the Project Cost Chart in the original application

Historical Data Chart

- According to the Historical Data Chart Erlanger Medical Center experienced net operating losses in each of the three most recent years reported: ($12,419,410) for 2010; ($12,014,326) for 2011; and ($26,760,089) for 2012.
- When asked by HSDA staff about the financial viability of the proposed project, the applicant responded in the first supplemental response that when eliminating non-cash expenses such as depreciation and amortization, the cash flow for the last three years was $14,526,3892 in 2010; $13,785,288 in 2011; and ($190,711) in 2012.

Projected Data Chart

The Projected Data Chart for the PET service reflects $5,570,607 in total gross revenue on 1,055 procedures during the first year of operation and $7,369,914 on 1,329 procedures in Year Two. The Projected Data Chart reflects the following:

- Net operating income less capital expenditures for the applicant will equal $550,270 in Year One increasing to $583,911 in Year Two.
- Net operating revenue after bad debt, charity care, and contractual adjustments is expected to reach $1,316,066 or approximately 23.6% of total gross revenue in Year One
- Gross operating margin is expected to be 9.9% in Year 1 and 7.9% in Year 2.

Charges

In Year One of the proposed project, the average charge per procedure information is as follows:

- The proposed average gross charge per procedure is $5,280; however the net charge per procedure is $1,247.
- The average gross charge per procedure for the existing PET providers in the service area that reported charge information in 2012 included $2,754 for Diagnostic PET/CT of Chattanooga, $5,245 for Athens Regional Medical Center, and $5,295 for Memorial Hospital

Medicare/TennCare Payor Mix

Medicare/TennCare payor mix information for 2012 for service area PET providers that provided charge information to the HSDA Equipment Registry, compared to EMC's projected payor mix in Year 1 after project completion is presented in the table below:

Provider	Medicare Revenue	Medicare as a % of Total	TennCare /Medicaid Revenue	Tenn Care/ Medi caid as a % of Total
Diagnostic PET/CT of Chattanooga	$1,739,513	53.6%	$159,040	4.9%
Memorial Hospital	$2,328,626	61.1%	$111,117	2.9%
Athens Regional Medical Center	$503,273	53.3%	$125,753	13.3%
Erlanger Medical Center (Year 1)	$2,787,944	50.0%	781,469	14.0%

Financing
A July 9, 2013 letter from J. Britton Tabor, Chief Financial Officer of Erlanger confirms the applicant has sufficient cash reserves to finance the proposed project.

Erlanger's unaudited interim financial statements dated May 31, 2013 report $29,637,443 in cash and temporary investments, total current assets of $142,181,852, total current liabilities of $71,621,918 and a current ratio of 1.99:1. Erlanger's audited financial statements dated June 30, 2012 reported $27,820,469 in cash and cash equivalents, total current assets of $155,862,106, total current liabilities of $66,925,855 and a current ratio of 2.33:1.

Current ratio is a measure of liquidity and is the ratio of current assets to current liabilities which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

Staffing
The applicant's proposed staffing for the PET/CT service is 1.5 FTEs radiological technologists with professional certification as a Certified Nuclear Medicine Technologist.

Licensure/Accreditation
EMC is licensed by the Tennessee Department of Health, Division of Health Care Facilities.

EMC is accredited by The Joint Commission.

Corporate documentation, real estate deed information, FDA Equipment Approval Letter, equipment quote, and radiopharmaceutical provider agreement are on file at the Agency office and will be available at the Agency meeting.

Should the Agency vote to approve this project, the CON would expire in **three** years.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT

There are no other Letters of Intent, denied applications, or outstanding Certificates of Need for this applicant.

Outstanding Certificates of Need:

Erlanger Bledsoe Hospital, CN1209-044A, has an outstanding Certificate of Need that will expire on March 1, 2016. The CON was approved at the January 23, 2013 Agency meeting for the development of a satellite emergency department. The estimated project cost is **$1,816,347.00.** *Project Status Update: An update submitted by a representative of Erlanger on 10/1/2013 indicated that approval from CMS had expired concurrent with approval of the CON…it was good for a year from original issuance. Erlanger filed a new/complete attestation with CMS and has recently received approval. Erlanger is currently in process of fine tuning plans and equipment requirements and negotiating with ED physicians on coverage. With the updated CMS approval in hand, Erlanger expects to move forward with full implementation in the next 60 days or so. No issues are expected with respect to cost or project scope. It is expected that the project will be completed on schedule.*

Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Medical Center, CN1207-034A, has an outstanding Certificate of Need that will expire December 1, 2015. The CON was approved at the October 24, 2012 Agency meeting for the renovation, upgrade and modernization of adult operating rooms, including the addition of four (4) new operating rooms. No other health care services will be initiated or discontinued. The estimated project cost is **$21,725,467.00.** *Project Status Update: An update submitted by a representative of Erlanger on 10/1/2013 indicated this project has been under continuous construction since receipt of the CON, with several phases of work completed to date. The project is on schedule. No issues have impacted the scope or cost. It is expected that the project will be completed on schedule and within the defined budget.*

Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger East, CN 0405-047AE, has an outstanding Certificate of Need that, following three modifications for extension of the time, will expire on December 1, 2014. The CON was approved at the October 27, 2004 Agency meeting for the construction of a new four (4) story patient tower and other ancillary space: transfer of seventy-nine (79) beds from the main Erlanger campus to the east campus: initiation of cardiac catheterization and acquisition of a magnetic resonance imaging (MRI) scanner. This project will decrease the main campus beds from 703 to 624 licensed beds and increase the east campus beds from 28 to 107 licensed beds. The estimated project cost is **$68,725,321.00.** *Project Status Update: An update submitted by a representative of Erlanger on 10/1/2013 indicated that the new emergency department was recently completed and opened. The design of the bed addition has been completed. It is expected that construction of the next phase will begin*

in short order. There have been no issues or changes with the scope of work or budget and expect to complete the project as scheduled.

Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger North Hospital CN1012-056A, has an outstanding Certificate of Need that will expire on November 1, 2014. The CON was approved at the March 23, 2011 Agency meeting for the establishment of a nursing home and conversion of thirty (30) acute care beds to thirty (30) skilled nursing beds. The estimated project cost is **$1,477,052.00**. *Project Status Update: The Agency approved an eighteen month extension for this application at its March 27, 2013 meeting. Additionally a change of ownership to Standifer Place and a new affiliate organization, Mature Care Transitional Unit, LLC, was approved. An update submitted by a representative of Erlanger on 10/1/2013 indicated that the extension was requested so that their partner could finalize corporate organization filings and related documents. This has been an ongoing process; however, it is expected that documents will be finalized in the next several weeks and move forward with implementation as proposed. No issues on scope of project or cost are currently anticipated.*

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no other Letters of Intent, denied or pending applications, or outstanding Certificates of Need for other health care organizations in the service area proposing this type of service.

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

MAF
10/3/2013

LETTER OF INTENT

LETTER OF INTENT
TENNESSEE HEALTH SERVICES & DEVELOPMENT AGENCY

2013 JUL 10 AM 9 10

The Publication of Intent is to be published in the Chattanooga Times Free Press, which is a newspaper of general circulation in Hamilton County, Tennessee, on or before July 10, 2013, for one day.

This is to provide official notice to the Health Services & Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601 *et. seq.*, and the Rules of the Health Services & Development Agency, that Erlanger Medical Center, owned by the Chattanooga-Hamilton County Hospital Authority D/B/A Erlanger Health System, with an ownership type of governmental, and to be managed by itself, intends to file an application for a Certificate of Need for a Positron Emission Tomography / Computed Tomography (PET/CT) Scanner. No other health care services will be initiated or discontinued.

The facility and equipment will be located in Erlanger Medical Center, at 975 East 3rd Street, Chattanooga, Hamilton County, Tennessee 37403. The total project cost is estimated to be $ 4,540,471.00.

The anticipated date of filing the application is July 15, 2013.

The contact person for this project is Joseph M. Winick, Sr. Vice President, Erlanger Health System, 975 East 3rd Street, Chattanooga, Tennessee 37403, and by phone at (423) 778-7274.

Joseph M. Winick | July 9, 2013 (Date:) | Joseph.Winick@erlanger.org (E-Mail:)

The Letter Of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services & Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

The published Letter Of Intent must contain the following statement pursuant to T.C.A. §68-11-1607(c)(1): (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

ORIGINAL APPLICATION

CERTIFICATE OF NEED APPLICATION

Chattanooga-Hamilton County Hospital Authority

D / B / A

Erlanger Medical Center

Application For

Positron Emission Tomography / Computed Tomography

ERLANGER HEALTH SYSTEM
Chattanooga, Tennessee

Section A

APPLICANT PROFILE

Section A: APPLICANT PROFILE

Please enter all Section A responses on this form. All questions must be answered. If an item does not apply, please indicate "N/A". ***Attach appropriate documentation as an Appendix at the end of the application and reference the applicable item Number on the attachement.***

1. Name of Facility, Agency, or Institution.

Chattanooga-Hamilton County Hospital Authority
D / B / A
Erlanger Medical Center
975 East 3rd Street
Hamilton County
Chattanooga, TN 37403

2. Contact Person Available For Responses To Questions.

Joseph M. Winick, SVP - Strategic Planning
Erlanger Health System
975 East 3rd Street
Chattanooga, TN 37403
(423) 778-8088
(423) 778-8068 -- FAX
Joseph.Winick@erlanger.org -- E-Mail

3. Owner of the Facility, Agency, or Institution.

Chattanooga - Hamilton County Hospital Authority
D / B / A
Erlanger Health System
975 East 3rd Street
Hamilton County
Chattanooga, TN 37403

4. Type of Ownership or Control.

A.	Sole Proprietorship	_____
B.	Partnership	_____
C.	Limited Partnership	_____
D.	Corporation (For Profit)	_____
E.	Corporation (Not-for-Profit)	_____
F.	Governmental (State of TN or Political Subdivision)	X

G. Joint Venture _____
H. Limited Liability Company _____
I. Other (Specify) _____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

-- A copy of the enabling legislation along with a copy of the certification by the Tennessee Secretary of State is attached at the end of this Application.

-- Please note that *Erlanger Health System* is a single legal entity and *Erlanger Medical Center* is an administrative unit of *Erlanger Health System*. Therefore, an ownership structure organizational chart is not applicable.

5. Name of Management / Operating Entity (if applicable).

Chattanooga-Hamilton County Hospital Authority
D / B/ A
Erlanger Health System
975 East 3rd Street
Hamilton County
Chattanooga, TN 37403

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

6. Legal Interest in the Site of the Institution
(Check One)

A. Ownership X
B. Option to Purchase _____
C. Lease of _____ Years _____
D. Option to Lease _____
E. Other (Specify) _____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

7. **Type of Institution**

(Check as appropriate - more than one response may apply)

A.	Hospital (Specify) General Medical/Surgical	X
B.	Ambulatory Surgical Treatment Center (ASTC), Multi-Specialty	
C.	ASTC, Single Specialty	
D.	Home Health Agency	
E.	Hospice	
F.	Mental Health Hospital	
G.	Mental Health Residential Treatment Facility	
H.	Mental Health Institutional Habilitation Facility (ICF/MR)	
I.	Nursing Home	
J.	Outpatient Diagnostic Center	
K.	Recuperation Center	
L.	Rehabilitation Facility	
M.	Residential Hospice	
N.	Non-Residential Methadone Facility	
O.	Birthing Center	
P.	Other Outpatient Facility (Specify)	
Q.	Other (Specify)	

8. **Purpose of Review**

(Circle Letter(s) as appropriate - more than one response may apply)

A.	New Institution	
B.	Replacement/Existing Facility	
C.	Modification/Existing Facility	X
D.	Initiation of Significant Health Care Service As Defined In TCA § 68-11-1607(4) (Specify)	
E.	(Specify)	
F.	Discontinuance of OB Services	
G.	Acquisition of Equipment	X
H.	Change in Beds	

[Please note the type of change by underlining the appropriate response:

Increase, Decrease, Designation, Distribution, Conversion, Relocation]

I. Change of Location _____

J. Other (Specify) _____

9. **Bed Complement Data**

Please indicate current and proposed distribution and certification of facility beds.

		Licensed Beds	*(*) CON Beds*	*Staffed Beds*	*Beds Proposed*	*TOTAL Beds at Completion*
A.	Medical	251				251
B.	Surgical	200				200
C.	Long-Term Care Hospital					
D.	Obstetrical	40				40
E.	ICU / CCU	76				76
F.	Neonatal					
G.	Pediatric					
H.	Adult Psychiatric					
I.	Geriatric Psychiatric					
J.	Child / Adolescent Psychiatric					
K.	Rehabilitation					
L.	Nursing Facility (non – Medicaid Certified)					
M.	Nursing Facility Level 1 (Medicaid only)					
N.	Nursing Facility Level 2 (Medicare only)					
O.	Nursing Facility Level 2 (dually certified Medicaid / Medicare)					
P.	ICF / MR					
Q.	Adult Chemical Dependency					
R.	Child and Adolescent Chemical Dependency					
S.	Swing Beds					
T.	Mental Health Residential Treatment					
U.	Residential Hospice					
	TOTAL	567				567

(*) CON Beds approved but not yet in service.

10. **Medicare Provider Number** 1639264575

Certification Type General Acute Care

11. Medicaid Provider Number 1639264575

Certification Type General Acute Care

** Please note that the same NPI number for Medicare has been shown for Medicaid as well. This is because the individual TennCare MCO's each assign their own particular provider ID numbers.

** Please note that the Medicare provider number shown above is for Erlanger Medical Center only.

12. If this is a new facility, will certification be sought for Medicare and / or Medicaid ?

Yes _____ No _____

Response

While *Erlanger Medical Center* is not a new facility, it is an administrative unit of *Erlanger Health System*, which currently participates in both the Medicare and Medicaid programs.

***13. Identify all TennCare Managed Care Organizations / Behavioral Health Organizations (MCO's/BHO's) operating in the proposed service area.* Will this project involve the treatment of TennCare participants ?** *Yes* **If the response to this item is yes, please identify all MCO's/BHO's with which the applicant has constracted *or plans to contract*.**

Discuss any out-of-network relationships in place with MCO's/BHO's in the area.

Response

The applicant currently has contracts with the following entities.

A. TennCare Managed Care Organizations

-- BlueCare

-- TennCare Select
-- United Healthcare Community Plan
(Children's Medical Services under age 21 & High Risk Maternity Only)
-- AmeriGroup Community Care

B. Georgia Medicaid Managed Care Organizations

-- AmeriGroup Community Care
-- Peach State Health Plan
-- WellCare Of Georgia

C. Commercial Managed Care Organizations

-- Blue Cross / Blue Shield of Tennessee
- Blue Preferred
- Blue Select
- Blue CoverTN
- Cover Kids (via Blue Select)
- AccessTN (via Blue Select)
- Blue Advantage
-- Blue Cross of Georgia (HMO & Indemnity)
-- Bluegrass Family Health, Inc.
(includes Signature Health Alliance)
-- CIGNA Healthcare of Tennessee, Inc.
-- UNITED Healthcare of Tennessee, Inc.
(Commercial & Medicare Advantage)
-- Aetna Health
-- Health Value Management D/B/A Choice Care Network (Commercial & Medicare Advantage)
-- HUMANA (Commercial & Medicare Advantage)
-- HUMANA Military
-- HealthSpring (Commercial & Medicare Advantage)
-- Windsor Health Plan (Medicare Advantage)
-- Olympus Managed Health Care, Inc.

D. Alliances

-- Health One Alliance

E. Networks

-- Multi-Plan (includes Beech Street & PHCS)
-- MCS Patient Centered Healthcare
-- National Provider Network
-- NovaNet
-- USA Managed Care Corp.
-- MedCost

-- Alliant Health Plan
-- Crescent Preferred Provider Organization
-- Evolutions Healthcare System
-- Prime Health Resources
-- Three Rivers Provider Network
-- Galaxy Health Network
-- First Health Network
-- Integrated Health Plan
-- Logicomp Business Solutions, Inc.
-- HealthSCOPE Benefits, Inc.
-- HealthCHOICE (Oklahoma State & Education Employees Group Insurance Board)

F. Other

-- Not Applicable.

Section B

PROJECT DESCRIPTION

Section B: PROJECT DESCRIPTION

Please answer all questions on 8 ½" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

Response

Erlanger Medical Center (hereinafter "EMC") seeks CON approval to acquire a Positron Emission Tomography / Computed Tomography Scanner ("PET/CT"). Our cost estimate of $ 4,540,471 is for a "big bore" PET/CT unit. The cost of this project will be funded through continuing operations. Associated staffing will be 1.5 FTE's.

The proposed PET/CT unit fills an essential gap in diagnostic capability in a number of service lines at Erlanger including neurosciences and oncology. In these services, Erlanger already provides clinical leadership that is recognized in the region and beyond. In neurosciences, for example, the stroke program at Erlanger is recognized as one of the leading programs of its kind in the nation. Volume of patients served places it at the top of the list nationally. Erlanger has recently recruited a top epileptologist to supplement its deep expertise. Many patients who suffer from strokes also have seizures where the PET/CT can serve to gain further insight to causes, identifying potential opportunities for surgical intervention and improved outcomes for those served. Similarly for oncology patients, Erlanger already offers a comprehensive program, including the only Cyberknife in a 100 mile radius utilized for non-invasive surgery of tumors. Here again, the PET/CT can aid in diagnosis, assessment and planning to ensure the treatment plan is progressing to advance and improve patient outcomes.

Other initiatives like the 340B pharmacy program, only available at Erlanger because of its disproportionate share of low income patients, serves to make needed chemotherapeutic drugs available to those who would not otherwise have access to life sustaining medications. Affordability is an important ingredient in insuring access for those in need. The PET/CT is an essential diagnostic tool that will serve to advance the quality of care provided particularly for the under served who might otherwise not have access to this vital technology.

As *the* safety net hospital in Southeast Tennessee, it is vital that EMC enhance and update its facilities to provide the best imaging services available for the communities we serve. As an academic medical center affiliated with the University of Tennessee College of Medicine, which is co-located on the Erlanger campus, Erlanger seeks to provide appropriate facilities so as to enhance the training and education of medical residents and fellows as well as other health professionals. Updating facilities also means planning for tomorrow with regard to PET/CT services for the regional service area, ensuring that the needs of the uninsured and/or low income population are being met.

In evaluating the utilization of PET scan units in Southeast Tennessee compared to the entire State of Tennessee there appears to be a significant disparity. Following is comparison of the PET/CT use rate per capita. As may be seen, the population of Southeast Tennessee is under served in terms of PET utilization by 29.4% in 2009, 21.3% in 2010 and 25.2% in 2011.

	===== CY 2011 =====		===== CY 2010 =====		===== CY 2009 =====	
	No. Of PET Units	Total Scans	No. Of PET Units	Total Scans	No. Of PET Units	Total Scans
Population - Tennessee		6,387,600		6,335,316		6,283,032
Totals - Tennessee	33.8	36,460	34.0	37,763	33.6	41,414
Mean Avg. - Per Capita	0.00000529	0.00570793	0.00000537	0.00596071	0.00000535	0.00659140
Population - Svc Area		620,231		616,083		611,935
Totals - Svc Area	3.0	2,648	3.0	2,891	3.0	2,849
Mean Avg. - Per Capita	0.00000484	0.00426938	0.00000487	0.00469255	0.00000490	0.00465572
Use Rate Disparity - Per Capita		-0.00143856		-0.00126816		-0.00193568
Use Rate Disparity - %		-25.2%		-21.3%		-29.4%

The service area for the PET/CT service is Southeast Tennessee. There are three (3) other PET/CT units located

within the ten (10) county service area in Southeast Tennessee. However, it should be noted that Erlanger attracts patients from a much wider geography including Alabama, Georgia and North Carolina. In fact, Erlanger has transfer agreements with a total of 92 facilities including more than 40 hospitals.

II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

A. Describe the construction, modification and / or renovation to the facility (exclusive of major medical equipment covered by T.C.A. section 68-11-1601 *et seq.*) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of $ 5 million) and other facility projects (construction cost in excess of $ 2 million) should complete the Square Footage And Cost Per Square Foot Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Part B.-E. Please also discuss and justify the cost per square foot for this project.

If the project involves none of the above describe the development of the proposal.

Response

The PET/CT unit will be placed in the existing Outpatient Imaging Dept., Nuclear Medicine area. Due to the weight of the scanner the floor and structural supports will have to be reinforced. There will not be any new construction. Some

renovation is necessary to provide space for the control room and other support spaces. The area to be renovated totals 1,858 SF and the construction cost including contingency is $ 529,698; which yields a cost per SF of $ 285.09.

B. Identify the number of beds increased, decreased, converted, relocated, designated, and/or distributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

Response

*** Not applicable.*

Square Footage & Cost Per Square Foot Chart

The *Square Footage & Cost Per Square Foot Chart* is attached at the end of this application.

C. As the applicant, describe your need to provide the following healthcare services (if applicable to this application):

1.	Adult Psychiatric Services	N/A
2.	Alcohol and Drug Treatment for Adolescents (exceeding 28 days)	N/A
3.	Birthing Center	N/A
4.	Burn Units	N/A
5.	Cardiac Catheterization Services	N/A
6.	Child and Adolescent Psychiatric Services	N/A
7.	Extracorporeal Lithotripsy	N/A
8.	Home Health Services	N/A
9.	Hospice Services	N/A
10.	Residential Hospice	N/A
11.	ICF/MR Services	N/A
12.	Long-Term Care Services	N/A
13.	Magnetic Resonance Imaging (MRI)	N/A
14.	Mental Health Residential Treatment	N/A
15.	Neonatal Intensive Care Unit	N/A
16.	Non-Residential Methadone Treatment Centers	N/A
17.	Open Heart Surgery	N/A
18.	Positron Emission Tomography	***X***
19.	Radiation Therapy/Linear Accelerator	N/A

20. Rehabilitation Services N/A
21. Swing Beds N/A

Response

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The service area for the PET/CT service is Southeast Tennessee. There are three (3) other PET/CT units located within the ten (10) county service area in Southeast Tennessee. However, it should be noted that Erlanger attracts patients from a much wider geography including Alabama, Georgia and North Carolina. In fact, we has transfer agreements with a total of 92 facilities including more than 40 hospitals who need access to tertiary level services and specialists who are only available at Erlanger.

D. Describe the need to change location or replace an existing facility.

Response

*** Not applicable. ***

E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of $ 2.0 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner,

extracorporeal lithotripter and/or linear accelerator by responding to the following:

1. For fixed site major medical equipment (not replacing existing equipment).

   a. Describe the new equipment, including:

      1. Total Cost (as defined by Agency Rule).
      2. Expected useful life.
      3. List of clinical applications to be provided.
      4. Documentation of FDA approval.

   b. Provide current and proposed schedules of operations.

Response

The total cost for this project is $ 4,540,471. The expected useful life of the PET/CT unit is 7 years and a copy of the FDA letter is attached to this CON application. The clinical applications of the PET/CT will be in the diagnosis and continuing treatment of Epilepsy, Parkinson's Disease, Huntington's Disease, Alzheimer's Disease, Lung Cancer and other forms of Cancer.

2. For mobile major medical equipment:

   a. List all sites that will be served.
   b. Provide current and proposed schedules of operations.
   c. Provide the lease or contract cost.
   d. Provide the fair market value of the equipment.
   e. List the owner for the equipment.

Response

*** Not Applicable. ***

3. Indicate applicant's legal interest in equipment (i.e.-purchase, lease, etc.). In the case of equipment purchase include a quote and/or proposal from an equipment

vendor, or in the case of equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Response

Applicant will purchase the device. A copy of the FDA letter approving the device for commercial use is attached to this CON application.

III. (A) Attach a copy of the plot plan of the site on an 8 ½" x 11" sheet of white paper which **must include**:

1. Size of site (**in acres**).

   -- *Erlanger Medical Center* is located on approximately 40.7 acres. A copy of the plot plan is attached to this application.

2. Location of structure on the site.

   -- Erlanger Medical Center is centrally located on the site.

3. Location of the proposed construction.

   -- Renovation will take place in the Outpatient Imaging Dept. of the Medical Mall building.

4. Names of streets, roads or highways that cross or border the site.

   -- Roads that border the site are *East 3rd Street, Hampton Street, Blackford Street,* and *Central Avenue.*

Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.

(B) 1. Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in

the area. Describe the accessibility of the proposed site to patients/clients.

Response

Erlanger Medical Center is easily accessible to patients in Chattanooga and Hamilton County from both primary and secondary roads. Additionally, the hospital can be easily accessed via public transportation. Further, proximal state and interstate highways provide easy access to EMC from Tennessee, Georgia and Alabama.

Search Results

From: 975 E 3rd St, Chattanooga, TN 37403-2103
To: US Federal District Court (courthouse), Chattanooga, Tennessee, United States

IV. Attach a floor plan drawing which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc., on an 8 ½" x 11" sheet of white paper.

NOTE: ***DO NOT SUBMIT BLUEPRINTS***. Simple line drawings should be submitted and need not be drawn to scale.

Response

Floor plans are attached at the end of this CON application.

V. For a Home Health Agency or Hospice, identify:

A. Existing service area by County.
B. Proposed service area by County.
C. A parent or primary service provider.
D. Existing branches.
E. Proposed branches.

Response

** *Not applicable.* **

Section C

GENERAL CRITERIA FOR CERTIFICATE OF NEED

Section C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care." The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines For Growth), developed pursuant to Tennessee Code Annotated § 68-11-1625.

The following questions are listed according to the three (3) criteria: (1) Need, (2) Economic Feasibility, and (3) Contribution to the Orderly Development of Healthcare. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. *Please type each question and its response on 8 ½" x 11" white paper.* All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions to which they refer. If a question does not apply to your project, indicate "Not Applicable (NA)".

PRINCIPLES OF TENNESSEE STATE HEALTH PLAN

[From 2011 Update, Pages 5-13]

1. ***Healthy Lives*: The purpose of the State Health Plan is to improve the health of Tennesseans.**

Response

Erlanger Medical Center is the safety net hospital for southeast Tennessee; though the hospital also serves northwest Georgia, northeast Alabama and southwest North Carolina due to it's location and the scope and range of services provided. It is often the only hospital which low-income people, minorities, and other underserved populations can turn to for treatment. In order to assure the continued viability of its mission as a safety net hospital, *Erlanger Medical Center* continually strives to provide services that are the most medically appropriate, least intensive, and provided in the most cost-effective health care setting.

As the safety net provider, a large underserved population depends on Erlanger to provide needed services. While it is difficult to predict the outcome of health reform initiatives, many Tennesseans previously without health insurance can be expected to elect services which may have otherwise been postponed, adding to the potential demand for PET/CT services. Growth in the elderly and general population can also be expected to increase demand for PET/CT. Surveys of the Chattanooga region have shown that some 70% or more of area physicians and surgeons received their training at EMC via its affiliation with the UT College of Medicine. Based on current residency and fellowship programs, it can be expected that this trend will continue with many physicians opting to remain in Tennessee, at Erlanger.

The proposed modifications to EMC's physical plant and Imaging services are consistent with the *State Health Plan* because they seek to ensure patient access to appropriate facilities for Tennesseans in particular. *Erlanger Medical Center*, is the safety net hospital for underserved residents in southeast Tennessee, providing access regardless of the patients ability to pay. Enhanced access has been demonstrated to improve the health status of those served.

2. *Access To Care*: Every citizen should have reasonable access to care.

Response

Erlanger Medical Center, is the safety net hospital for underserved residents in southeast Tennessee. *Erlanger's* TennCare / Medicaid utilization and uncompensated care cost for the last three (3) fiscal years are presented below.

	TennCare / Medicaid Utilization %	Uncompensated Care Cost
FY 2010	25.6 %	$ 82.2 M
FY 2011	25.9 %	$ 82.9 M
FY 2012	24.9 %	$ 85.5 M

Notes
(1) TennCare / Medicaid utilization percentages are based on gross I/P charges derived from applicant's internal records.
(2) Uncompensated care cost estimates were derived from applicant's internal records as reported in the notes to the annual audited financial statements.
(3) Erlanger's fiscal year begins on July 1 of each year

and ends on June 30 of the following year. For example, FY 2011 began on July 1, 2010, and ended on June 30, 2011.

Under the federal Medicare program, an urban hospital with more than 100 beds needs to serve 15% of low-income patients in order to qualify as a "disproportionate share hospital". *Erlanger* clearly shoulders significantly more than its proportionate share of the care rendered to this patient population. The State Health Plan favors initiatives, like the project proposed herein, which help to foster access to the underserved.

Erlanger Medical Center has the only Level I trauma center, the only life-flight helicopter service, and the only children's hospital in the region. *Erlanger* is also the only provider in its service area of Level III neonatal care and perinatal services. *Erlanger Health System* is committed to maintaining its mission of providing healthcare services to all citizen's regardless of ability to pay. Such services include inpatient care, obstetrics, surgical services and emergency care.

Erlanger Health System also operates several other hospitals in southeast Tennessee as well as a network of physician offices and *Federally Qualified Health Centers* (hereinafter "FQHC") with three (3) locations, so that patients may easily access needed services while also facilitating easy access to the broader healthcare delivery system.

3. ***Economic Efficiencies***: **The State's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system.**

Response

Historically, EMC has very cost efficient within the context of the overall healthcare delivery system. The inpatient net revenue per admission for local hospitals in Chattanooga, Tennessee, is as follows.

Hospital	Avg. Net Revenue Per I/P Admission
Erlanger Medical Center	$ 11,025
Memorial Hospital	$ 10,475
Parkridge Medical Center	$ 13,366

Notes
(1) Information derived from Tennessee Joint Annual Reports for CY 2012 for Erlanger Medical Center and Memorial Hospital, CY 2011 for Parkridge Medical Center.

While offering more complex services and capabilities, Erlanger has net revenue per inpatient admission comparable to other area hospitals. *Erlanger*, being an Academic Medical Center, is economically efficient while incurring higher costs by offering more complex services including the only Level I trauma center, the only life-flight helicopter service, the only children's hospital, and the only Level III neonatal care in southeast Tennessee.

4. ***Quality Of Care***: **Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers.**

Response

Erlanger Medical Center , which is accredited by the Joint Commission, participates in periodic submission of quality related data to the *Centers For Medicare & Medicaid Services* through its *Hospital Compare* program. Further, *EMC* has an internal program of *Medical Quality Improvement Committees* which continually monitor our healthcare services to assure patients of the quality of care provided.

5. ***Health Care Workforce***: **The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.**

Response

Erlanger Health System, as southeast Tennessee's only academic medical center, has established strong long term relationships with the region's colleges, universities and clinical programs. Erlanger provides clinical sites for internships and rotation programs in nursing, radiology, respiratory care and pharmacy, to name a few. A number of regional universities offer Bachelor degree programs in nursing and physical therapy. Locally, two year degrees are available in many clinical allied health areas with additional programs

offering advanced technical training in Radiological Imaging such as Nuclear Medicine, Diagnostic Ultrasonography, etc.

The *University of Tennessee - College of Medicine* is co-located at Erlanger and includes training of senior medical students on clinical rotation as well as graduate medical education for training of residents and advanced fellowships in various medical specialties, including surgical specialties, as outlined below.

Residency Programs
- Emergency Medicine
- Family Medicine
- Internal Medicine
- Obstetrics & Gynecology
- Orthopedic Surgery
- Pediatrics
- Plastic Surgery
- Surgery
- Transitional Year

Fellowship Programs
- Geriatrics
- Hospice & Palliative Care
- Orthopedic Surgery - Traumatology
- Surgical Critical Care
- Vascular Surgery
- Colon & Rectal Surgery

Erlanger Health System participates with numerous schools that provide advanced training in the areas of nursing and allied health.

[End Of Responses To Principles Of Tennessee State Health Plan - 2011 Update, pages 5 - 13]

CRITERIA FOR POSITRON EMISSION TOMOGRAPHY SERVICES

[From Revised And Updated Standards & Criteria For PET Services, 2009]

1. **Applicants proposing a new stationary PET unit should project a minimum of at least 1,000 PET procedures in the first year of service , building to a minimum of 1,600 procedures per year by the second year of service and for**

every year thereafter. Providers proposing a mobile PET unit should project a minimum of at least 133 PET procedures in the first year of service per day of operation per week, building to an annual minimum of 320 procedures per day of operation per week by the second year of service and for every year thereafter. The minimum number of procedures for a mobile PET unit should not exceed a total of 1,600 procedures per year if the unit is operated more than five (5) days per week. The application for mobile and stationary units should include projections of demographic patterns, including analysis of applicable population based health status factors and estimated utilization by patient clinical diagnoses category (ICD-9).

For units with a combined utility, e.g., PET/CT units, only scans involving the PET function will count towards the minimum number of procedures.

Response

We have employed two (2) methods to substantiate the need for an additional PET scanner in the service area. The first method we employed was total the number of PET units and PET procedures in the State of Tennessee to determine the per capita use rate compared to the per capita use rate for the service area, the table is below (data obtained from the HSDA utilization report for major medical equipment).

	===== CY 2011 =====		===== CY 2010 =====		===== CY 2009 =====	
	No. Of PET Units	Total Scans	No. Of PET Units	Total Scans	No. Of PET Units	Total Scans
Population - Tennessee		6,387,600		6,335,316		6,283,032
Totals - Tennessee	33.8	36,460	34.0	37,763	33.6	41,414
Mean Avg. - Per Capita	0.00000529	0.00570793	0.00000537	0.00596071	0.00000535	0.00659140
Population - Svc Area		620,231		616,083		611,935
Totals - Svc Area	3.0	2,648	3.0	2,891	3.0	2,849
Mean Avg. - Per Capita	0.00000484	0.00426938	0.00000487	0.00469255	0.00000490	0.00465572
Use Rate Disparity - Per Capita		-0.00143856		-0.00126816		-0.00193568
Use Rate Disparity - %		-25.2%		-21.3%		-29.4%

As may be seen from this data, the use rate for the service area is 25.2% less than the Tennessee use rate in 2011, 21.3% less in 2010 and 29.4% less in 2009. This suggests that the service area in 2011 was under served by approximately 892 PET scans (i.e.-.00143856 x 620,231), approximately 781 PET scans in 2010 (i.e.-.oo126816 x 616,083) and by approximately 1,197 PET scans

in 2009 (i.e.-.00193568 x 611,935). Or, if we calculate the 3 year average based on this data the service area is under served by approximately 960 PET scans (i.e.-.00154747 x 620,231).

The *second* method we employed to evaluate the need for an additional PET scanner in the service area was to estimate the incidence and prevalence of certain conditions and disease states that would most likely require a PET scan compared to the number of scans that the current providers actually did in 2011.

Condition / Disease State	= Estimated PET Scan = === Need In Market === Incidence	Prevalance	Total
Epilepsy	299	440	739
Parkinson's	54	149	203
Huntington's	44	5	49
Alzheimer's	98	120	218
Lung Cancer	592	43	635
Cancer - All Other	193	222	415
Cardiac	106	1,485	1,591
Total	1,386	2,464	3,850

Hospital	No. PET Units	PET Volume 2011
Memorial Hospital	1	904
Diagnostic PET/CT	1	1,225
Chattanooga Imaging - East	1	519
Total	3	2,648

Based on this data, the service area population requires PET capacity sufficient to perform 3,850 PET scans compared to a total of 2,648 PET scans actually performed. The difference of 1,202 PET scans represents our estimate of how the market is currently under served. There are also considerations of "financial" access and availability to needed care. Since the other PET providers do not share the same patient population, particularly the underserved, it can cause programmatic disruption in the treatment of cancer patients as well as adversely impact cost and continuity of care.

With this information we can see with relative certainty that the market is under served within the range of 960 - 1,202 PET scans per year. This is likely explained by those who simply cannot pay for service being excluded from receiving care.

We estimated that our PET/CT unit will perform 1,055 scans in Year 1 and 1,330 scans in year 2. The estimate for year 1 is approximately the mid-point of the range which we identified. The estimate for year 2 reflects growth by 275 scans which represents slightly less than the number of new Epilepsy patients per year (i.e.-the incidence rate shown above which is 299). Once the Epileptologist begins practice the number of PET scans for chronic Epilepsy patients will be served by our PET/CT unit (i.e.-some portion of the 440 scans per year for

prevalence). Please note that our volume estimates do not include those patients who will likely be attracted from outside the service area due to Erlanger's position as the tertiary Academic Medical Center in the four (4) state region comprised of Tennessee, Alabama, Georgia and North Carolina.

2. **All providers applying for a proposed new PET unit should document that the proposed location is accessible to approximately 75% of the service area's population. Applications that include non-Tennessee counties in their proposed service areas should provide evidence of the number of existing PET units that service the non-Tennessee counties and the impact on PET utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity.**

Response

The service area for the PET/CT service is Southeast Tennessee. The ten (10) counties which represent the service area in Southeast Tennessee are as follows.

Hamilton County, Tennessee
Bradley County, Tennessee
Marion County, Tennessee
Grundy County, Tennessee
Sequatchie County, Tennessee
Bledsoe County, Tennessee
Meigs County, Tennessee
Rhea County, Tennessee
McMinn County, Tennessee
Polk County, Tennessee

The furthest point of the service area (i.e.-the ten (10) counties in Southeast Tennessee) is approximately 67 miles from EMC's main campus, this represents a maximum driving time of approximately 1 hour and 20 minutes for 100 % of the service area population. For 75% of the service area population the driving time would be approximately 40 minutes or less for a distance of approximately 34 miles.

Our volume estimates do not include those patients who will likely be attracted from outside the service area due to Erlanger's position as the tertiary Academic Medical Center in

the four (4) state region comprised of Tennessee, Alabama, Georgia and North Carolina.

There are also considerations of "financial" access and availability to needed care. Since the other PET/CT providers do not share the same patient population, it can cause programmatic disruption in the treatment of cancer patients as well as adversely impact cost and continuity of care.

3. **All providers should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost and quality of care.**

Response

While other PET/CT providers are geographically available there is the consideration of "financial access", as not all patient have "equal: acces to needed care. Since the other PET/CT providers do not share the same patient population, it can cause programmatic disruption in the treatment of cancer patients as well as adversely impact cost and continuity of care.

4. **Any provider proposing a new mobile PET unit should demonstrate that it offers or has established referral agreements with providers that offer as a minimum, cancer treatment services, including radiation, medical and surgical oncology services.**

Response

** Not Applicable. **

5. **A need likely exists for one additional stationry PET unit in a service area when the combined average utilization of existing PET service providers is at or above 80% of the total capacity of 2,000 procedures during the most recent twelve-month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per PET unit is based upon the following formula:**

Stationary Units: Eight (8) procedures/day x 250 days/year

= 2,000 procedures/year

Mobile Units: Eight (8) procedures/day x 50 days/year
= 400 procedures/year

The provider should demonstrate that its acquisition of an additional stationary unit or mobile PET unit in the service area has the means to perform at least 1,000 stationary PET procedures or 133 mobile PET procedures per day of operation per week in the first full one-year period of service operations, and at least 1,600 stationary PET procedures or 320 mobile PET procedures per day of operation per week for every year thereafter.

Response

We evaluated the need for an additional PET scanner in the service area based on the incidence and prevalance of certain conditions and disease states that would most likely require a PET scan compared to the number of scans that the current providers actually did in 2011.

Condition / Disease State	= Estimated PET Scan = === Need In Market === Incidence	Prevalance	Total
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simply cannot pay for service being excluded from receiving care.

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6. The applicant should provide evidence that the PET unit is safe and effective for its proposed use.

a. The United States Food & Drug Administration (FDA) must certify the proposed PET unit for clinical use.

Response

A copy of the FDA letter approving the unit for clinical use is attached to this CON application.

b. The applicant should demonstrate that the proposed PET procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

Response

A letter from our architect attesting that the physical environment will conform to, and be compliant with, all applicable codes and standards is attached to this CON application.

c. The applicant should demonstrate how emergencies within the PET unit facility will be managed in conformity with accepted medical practice.

Response

A copy of the policy pertaining to emergencies is attached to this CON application.

d. The applicant should establish protocols that assure that all clinical PET procedures performed are medically necessary and will not unnecessarily duplicate other services.

Response

A copy of the policy pertaining to medical necessity is attached to this CON application.

e. The PET unit should be under the medical direction of a licensed physician. The applicant should provide documentation that attests to the nature and scope of the duties and responsibilities of the physician medical director. Clinical supervision and interpretation services must be provided by physicians who are licensed to practice medicine in the State of Tennessee and are board certified in Nuclear Medicine or Diagnostic Radiology. Licensure and oversight for the handling of medical isotopes and radiopharmaceuticals by the Tennessee Board of Pharmacy and/or the Tennessee Board of Medical Examiners - whichever is appropriate given the setting - is required. Those qualified physicians who provide interpretation services should have additional documented experience and training, credentialing and/or board certification in the appropriate specialty and in the use and interpretation of PET procedures.

Response

A copy of the CV for Dr. Pradeep Kumar Jacob is attached to this CON application. Also, a copy of EMC's license from the Tennessee Dept. of Environment & Conservation, Division Of Radiological Health is attached to this CON application. Dr. Jacob is listed on page 4 of the license.

f. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its

physician medical director must specify that said physician be an active member of the subject transfer agreement between hospital medical staff.

Response

A copy of EMC's list of transfer agreements is attached to this CON application.

7. **The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.**

Response

Applicant has in previous years and will continue in future years, to comply with all data reporting requirements of the HSDA pertaining to utilization of major medical equipment.

8. **In light of Rule 0720-4-.01(1), which lists the factors concerning need on which an application may be evaluated, the HSDA may decide to give special consideration to an applicant:**

a. **Who is offering the service in a medically underserved area as designated by the United States Health Resources & Services Administration;**

Response

All ten (10) counties in the service area in Southeast Tennessee, have been designated by HRSA as being medically underserved. A copy of the HRSA designation is attached to this CON application.

b. **Who documents that the service area population experiences a prevalence, incidence and/or mortality from cancer, heart disease, neurological impairment or other clinical conditions applicable to PET unit services that is substantially higher than the State of Tennessee average;**

Response

We obtained the Chronic Disease Health Profile from the website for the *Tennessee Dept. of Health - Office Of Policy, Planning & Assessment Surveillance, Epidemiology And Evaluation.* From this we derived the *Age Adjusted Mortality* data for conditions and disease states pertinent to PET services, as follows.

	Heart Disease	Cancer All Types	Alzheimer's	Stroke
Tennessee	220.7	200.8	36.2	51.3
Hamilton County	213.6	183.9	41.2	49.7
Bradley County	219.3	188.4	48.1	45.1
Marion County	235.2	231.9	49.2	57.1
Grundy County	261.9	193.6	26.3	51.0
Sequatchie County	202.0	271.7	56.6	51.4
Bledsoe County	256.2	162.8	40.7	73.3
Meigs County	233.8	206.6	35.7	62.7
Rhea County	244.8	232.6	27.9	58.4
McMinn County	182.1	195.7	34.8	59.2
Polk County	225.6	207.0	29.0	40.6
Hamilton County			**	
Bradley County			**	
Marion County	**	**	**	**
Grundy County	**			
Sequatchie County		**	**	**
Bledsoe County	**		**	**
Meigs County	**	**		**
Rhea County	**	**		**
McMinn County				**
Polk County	**	**		
Total Flags	6	5	5	6

The mortality rate for each county in the service area was compared to the average for the State of Tennessee. As may be seen, six (6) counties within the service area have mortality rates higher than Tennessee for Heart Disease and Stroke. Five (5) counties within the service area have age adjusted mortality rates higher than Tennessee for Cancer and Alzheimer's Disease.

c. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program and/or is a comprehensive cancer diagnosis and treatment program as designated by the Tennessee Department of Health and/or the Tennessee Comprehensive Cancer Control Coalition; or

Response

Erlanger is an Academic Medical Center affiliated with the University of Tennessee - College of Medicine. Erlanger is the only tertiary service provider within 100 miles of Chattanooga, Tennessee. Erlanger qualifies under this criterion as a "safety net hospital" because we provide service to all people regardless of their ability to pay. Further, we have the only "children's hospital" within 100 miles of Chattanooga, Tennessee.

Erlanger is classified by the Bureau of TennCare as a "safety net hospital" and also as "children's hospital".

d. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program.

Response

Erlanger currently contracts with several TennCare MCO's, as follows.

-- BlueCare
-- TennCare Select
-- United Healthcare Community Plan
-- AmeriGroup community Care

[End Of Responses To Revised & Updated Standards & Criteria For PET Services, 2009]

GENERAL QUESTIONS CONCERNING NEED, ECONOMIC FEASIBILITY & CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE

(I.) *NEED*

1. Describe the relationship of this proposal toward the implementation of the State Health Plan, Teneessee's Health: Guidelines For Growth.

(a) Please provide a response to each criterion and

standard in Certificate Of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.

Response

This project is consistent with the *Principles Of The Tennessee State Health Plan* as stated in the 2011 update ("Principles"). *Applicant* has addressed each of the Principles.

(b) Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4)(a-c).

Response

** Not applicable. **

2. Describe the relationship of this proposal to the applicant facility's long range development plans, if any.

Response

Erlanger Health System currently holds a CON for expansion of the *Erlanger East* campus (No. CN0405-047AE), a CON to convert 30 acute care beds to skilled nursing beds at *Erlanger North Hospital* (No. CN1012-056A), as well as a CON to modernize and upgrade the surgical facilities at Erlanger's main campus (No. CN1207-034A).

The goal for *Erlanger Health System* is to provide a comprehensive system of care comprised of unduplicated services while also serving those who are currently under served and/or those who do not have the ability to pay for their services. The PET/CT project is part of our long term plan and continued development of the Neuroscience and Oncology programs.

3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. Please submit maps on 8 ½" x 11" sheets of white paper marked only with ink detectable

by a standard photocopier (i.e-no highlighters, pencils, etc.).

Response

The service area for the PET/CT service at Erlanger Medical Center is defined as follows,

Primary Service Area

Hamilton County, Tennessee

Secondary Service Area

Bradley County, Tennessee
Marion County, Tennessee
Grundy County, Tennessee
Sequatchie County, Tennessee
Bledsoe County, Tennessee
McMinn County, Tennessee
Rhea County, Tennessee
Meigs County, Tennessee
Polk County, Tennessee

The service area is reasonable considering that *Erlanger* currently serves as the largest primary and tertiary based provider in Southeast Tennessee. *Erlanger Health System* makes available to the outlying communities services that otherwise would not be available. It should be noted that Erlanger attracts patients from a much wider geography including Alabama, Georgia and North Carolina. In fact, Erlanger has transfer agreements with a total of 92 facilities including more than 40 hospitals.

The service area is reasonable because 49.4 % of the inpatient volume comes from Hamilton County, Tennessee, and 21.6 % of the inpatient volume comes from the 9 county secondary service area, as illustrated below. The total number of 61,737 inpatient admissions for CY 2012 to an acute care hospital from the service area, is substantial *(Note - market data for Hutcheson Medical Center and Skyridge Medical Center is unavailable)*. The precise origin of patients within the service area is detailed as follows for both *Erlanger Health System* as well as the service area.

Regional Defined Service Area
In-Patient Origin & Market Share Information -- CY 2012

	Total Erlanger	Total All Other	Svc. Area Total	% EHS Pt. Origin	% Svc. Area Pt. Origin
Hamilton County, TN	13,560	23,200	36,760	49.4%	59.5%
Bradley County, TN	1,546	2,863	4,409	5.6%	7.1%
Marion County, TN	723	1,756	2,479	2.6%	4.0%
Grundy County, TN	277	2,104	2,381	1.0%	3.9%
Sequatchie County, TN	888	1,762	2,650	3.2%	4.3%
Bledsoe County, TN	489	576	1,065	1.8%	1.7%
Rhea County, TN	1,066	2,820	3,886	3.9%	6.3%
Meigs County, TN	228	1,325	1,553	0.8%	2.5%
McMinn County, TN	314	4,784	5,098	1.1%	8.3%
Polk County, TN	381	1,075	1,456	1.4%	2.4%
Total Region	19,472	42,265	61,737	71.0%	100.0%
% Market Share	31.5%				
Outside Service Area	7,964			29.0%	
Total EHS	27,436			100.0%	

Notes
(1) Facility volume information is derived from the THA Health Information Network market share database for calendar year 2012, which does not include both *Hutcheson Medical Center* and *Skyridge Medical Center*.

A map showing the primary and secondary service areas is attached at the end of this application.

4. A. Describe the demographics of the population to be served by this proposal.

Response

The service area of the applicant is defined above. Following is a discussion of certain population trends.

	2012 Est. Pop.	2017 Est. Pop.	2012 Service Area Patient Origin
Hamilton County, TN	340,756	352,830	59.5 %
Bradley County, TN	100,488	104,731	7.1 %
Marion County, TN	28,297	28,486	4.0 %
Grundy County, TN	13,603	13,345	3.9 %
Sequatchie County, TN	14,521	15,652	4.3 %
Bledsoe County, TN	12,932	13,096	1.7 %

Rhea County, TN	32,263	33,539	6.3 %
Meigs County, TN	11,880	12,227	2.5 %
McMinn County, TN	52,697	53,922	8.3 %
Polk County, TN	16,942	17,289	2.4 %
	624,379	645,117	100.0 %

Notes
(1) 2012 and 2017 population figures were obtained from *Claritas*.
(2) 2011 service area patient origin figures were derived from the THA Health Information Network database.

The proposed PET/CT unit fills an essential gap in diagnostic capability in a number of service lines at Erlanger including neurosciences and oncology. In these services, Erlanger already provides clinical leadership that is recognized in the region and beyond. In neurosciences, for example, the stroke program at Erlanger is recognized as one of the leading programs of its kind in the nation. Volume of patients served places it at the top of the list nationally. Erlanger has recently recruited a top epileptologist to supplement its deep expertise. Many patients who suffer from strokes also have seizures where the PET/CT can serve to gain further insight to causes, identifying potential opportunities for surgical intervention and improved outcomes for those served. Similarly for oncology patients, Erlanger already offers a comprehensive program, including the only Cyberknife in a 100 mile radius utilized for non-invasive surgery of tumors. Here again, the PET/CT can aid in diagnosis, assessment and planning to ensure the treatment plan is progressing to advance and improve patient outcomes.

Other initiatives like the 340B pharmacy program, only available at Erlanger because of its disproportionate share of low income patients, serves to make needed chemotherapeutic drugs available to those who would not otherwise have access to life sustaining medications. Affordability is an important ingredient in insuring access for those in need. The PET/CT is an essential diagnostic tool that will serve to advance the quality of care provided particularly for the under served who might otherwise not have access to this vital technology.

The elderly and women are prime candidates for service within the Neuroscience and Oncology service lines. It is estimated that the population age 65 and over in the service area will increase from 93,857 in 2012 to 119,908 in 2017. This is an increase of 27.8%. Thus, the project envisioned by the

instant application is intended to be of direct benefit to the senior population.

Women of child bearing age (i.e.-age 15-44) will comprise 37.6 % of the population. Further, 18.8 % of the population will be minority (i.e.-Black, Hispanic, Asian, etc.). *Erlanger* is committed to serving the population within the service area, as well as minorities and other under served populations. For this reason, *Erlanger* will continue to offer services which may not otherwise be available.

Growth in the service area could exceed forecasts given the attractiveness of southeast Tennessee to large employers such as VW, Amazon and Wacker Chemical, which have already located in the area.

B. The special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Response

Erlanger Medical Center is the safety net hospital for southeast Tennessee, and is often the only hospital which low-income people, minorities, and other underserved populations can turn to for treatment. In order to assure the continued viability of its mission as a safety net hospital, *Erlanger Health System* continually strives to provide services that are medically appropriate, least intensive (restrictive), and provided in the most cost-effective health care setting.

Erlanger Medical Center is accessible to patients in Chattanooga and Hamilton County from both primary and secondary roads. Additionally, the hospital can be easily accessed via public transportation. Further, proximal state and interstate highways provide easy access from Tennessee, Georgia and Alabama.

Erlanger has also been responsive to the needs of new businesses like VW, Amazon and Wacker Chemical which have generated thousands of new jobs in the area. The proposed project will help ensure that the service area population has access to services and facilities consistent with their needs and evolving industry standards.

It is estimated that the population age 65 and over in the service area will increase from 93,857 in 2012 to 119,908 in 2017. This is an increase of 27.8%. Thus, the project envisioned by the instant application is intended to be of direct benefit to the senior population.

Women of child bearing age (i.e.-age 15-44) will comprise 37.6 % of the population. Further, 18.8 % of the population will be minority (i.e.-Black, Hispanic, Asian, etc.). *Erlanger* is committed to serving the population within the service area, as well as minorities and other under served populations. For this reason, *Erlanger* will continue to offer services which may not otherwise be available.

5. Describe the existing or certified services, including approved but unimplemented CON's, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utlilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions,

etc.

Response

Utilization data for the three (3) general acute care hospitals in Chattanooga, Tennessee, is presented below.

Primary Acute Cate Hospitals -- Chattanooga, Tennessee
General Utilization Trends

	2010			2011			2012		
	Erlanger Med Ctr	Memorial Hospital	Parkridge Med Ctr	Erlanger Med Ctr	Memorial Hospital	Parkridge Med Ctr	Erlanger Med Ctr	Memorial Hospital	Parkridge Med Ctr
General Acute Care - Admissions	24,549	20,637	7,749	26,343	20,963	7,578	27,238	21,395	7,679
Inpatient Pt. Days - Acute Care	127,406	98,613	42,898	131,630	99,911	41,037	133,260	99,485	39,539
General Acute Care - ALOS	5.19	4.78	5.54	5.00	4.77	5.42	4.89	4.65	5.15
Total O/P Visits - Incl ED	205,441	238,793	63,918	207,028	249,485	66,798	259,783	257,382	69,367
Total Surgical Patients	27,249	20,397	9,582	31,266	19,988	9,453	31,492	19,808	9,918
OB Deliveries	2,636	0	0	2,639	0	0	2,679	0	0

NOTES
(1) This information is derived from *Tennessee Joint Annual Reports*.
(2) Data presented for *Parkridge Medical Center* is 2009, 2010 and 2011. Data from the 2012 Joint Annual Report was not available.

Memorial Health Care System in Chattanooga, Tennessee, holds a certificate of need for modifications to its main campus, no. CN0609-069. Memorial Hospital - Hixson holds a certificate of need for modification, no. CN1104-011. Memorial Hospital - Outpatient Cancer Center at Ooltewah, Tennessee, holds a certificate of need, no. CN1202-004.

Parkridge Health System holds a certificate of need related to Psychiatric hospital services, however, these services are not similar to those proposed herein.

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

Response

Utilization data for *Erlanger Medical Center* is presented below.

Erlanger Medical Center
General Utilization Trends

					========== Projected Utilization ==========				
	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Acute Care - Admissions	25,403	24,549	26,343	27,238	27,446	27,654	27,862	28,070	28,278
Inpatient Pt. Days - Acute Care	127,258	127,406	131,630	133,260	134,278	135,295	136,313	137,331	138,350
General Acute Care - ALOS	5.01	5.19	5.00	4.89	4.89	4.89	4.89	4.89	4.89
Total O/P Visits - Incl ED	190,102	205,441	207,028	259,783	261,767	263,752	265,736	267,720	269,705
Total Surgical Patients	25,058	27,249	31,266	31,492	31,733	31,973	32,214	34,199	34,439
OB Deliveries	2,734	2,636	2,639	2,679	2,700	2,720	2,740	2,761	2,781

NOTES
(1) This information is derived from *Tennessee Joint Annual Report*, for 2010, 2011 and 2012.
(2) The *Joint Annual Report* information for *Erlanger Medical Center* includes pediatric utilization.

The projected utilization is based upon a use rate average calculation for the three (3) year period of 2010, 2011 and 2012. Expected growth could exceed this forecast based on hospital referral patterns, health reform initiatives and advances in clinical care.

(II.) *ECONOMIC FEASIBILITY*

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.

- **All projects should have a project cost of at least $ 3,000 on Line F (minimum CON filing fee). CON filing fee should be calculated from Line D. (See application instructions for filing fee.)**

- **The cost of any lease should be based on fair market value or the total amount of lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure or "per click" arrangements. The methodology used to determine the total lease cost for a "per click" arrangement must include, at a minimum, the projected procedures, the "per click" rate and the term of the lease.**

- **The cost of fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.**

- **For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.**

Response

The Project Cost Chart has been completed on the next page.

SUPPLEMENTAL

PROJECT COST CHART

A.	Construction And Equipment Acquired By Purchase.	
1.	Architecural And Engineering Fees	48,500
2.	Legal, Administrative, Consultant Fees (Excluding CON Filing Fee)	
3.	Acquisition Of Site	
4.	Preparation Of Site	
5.	Construction Costs	481,544
6.	Contingency Fund	290,341
7.	Fixed Equipment (Not Included In Construction Contract)	3,324,276
8.	Moveable Equipment (List all equipment over $ 50,000)	
9.	Other (Specify) Technical, Signage, Information Systems, etc.	153,367
B.	Acquisition By Gift, Donation, Or Lease.	
1.	Facility (inclusive of building and land)	
2.	Building Only	
3.	Land Only	
4.	Equipment (Specify) _____	
5.	Other (Specify) _____	
C.	Financing Costs And Fees.	
1.	Interim Financing	
2.	Underwriting Costs	
3.	Reserve For One Year's Debt Service	
4.	Other (Specify) _____	
D.	Estimated Project Cost (A + B + C)	4,298,028
E.	CON Filing Fee	9,671
F.	Total Estimated Project Cost (D + E)	4,307,699

2. Identify the funding sources for this project.

a. Please check the applicable item(s) below and briefly summarize how the project will be financed. (Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.)

___ A. Commercial loan -- Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions.

___ B. Tax - Exempt Bonds -- Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance.

___ C. General obligation bonds -- Copy of resolution from issuing authority or minutes from the appropriate meeting.

___ D. Grants -- Notification of intent form for grant application or notice of grant award.

_X_ E. Cash Reserves - Appropriate documentation from Chief Financial Officer.

___ F. Other - Identify and document funding from all other sources.

Response

The project will be funded through internal cash reserves of *Erlanger Health System*. The CFO letter is attached to this CON application.

3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services And Development Agency.

Response

Construction cost for clinically related space of 1,858 SF, totals $ 529,688, with a cost per square foot of $ 285.09. Please note that while the architect letter has calculated cost per SF, this is based on total project cost, not just construction cost.

Project	Project No.	Cost Per SF
Methodist University Hosp	CN1111-047	$ 189.00 (1)
Methodist University Hosp	CN0911-055	$ 265.00
Morristown-Hamblen Hospital	CN1009-040	$ 250.00

NOTES
(1) This is a blended rate of $ 325.00 per SF for new construction and $ 177.00 per SF for renovations.

4. **Complete Historical and Projected Data Charts on the following two pages - *Do not modify the Charts provided or submit Chart substitutions* ! Historical Data Chart represents revenue and expense information for the last *three* (3) years for which complete information is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the *Proposal Only* (i.e.-if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).**

Response

The Historical Data Chart and Projected Data Chart have been completed.

5. **Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.**

Response

Following are the average charge amounts per patient.

Average Gross Charge $ 5,280

Average Deduction From Revenue	
Medicare	$ 4,319
TennCare / Medicaid	$ 4,506
Average Net Revenue	
Medicare	$ 961
TennCare / Medicaid	$ 774

HISTORICAL DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in July (Month).

		Year – 2012	Year – 2011	Year – 2010
A.	Utilization Data (Specify Unit Of Measure) I/P Admissions	28,987	27,705	27,006
B.	Revenue From Services To Patients			
1.	Inpatient Services	970,995,737	960,901,050	873,538,163
2.	Outpatient Services	599,778,040	540,147,249	509,627,991
3.	Emergency Services	113,238,095	112,357,719	95,434,436
4.	Other Operating Revenue (Specify) Home Health, POB Rent, etc.	37187604	34,980,484	36,579,283
	Gross Operating Revenue	1,721,199,476	1,648,386,502	1,515,179,873
C.	Deductions From Operating Revenue			
1.	Contractual Adjustments	980,425,997	929,699,718	833,419,476
2.	Provision For Charity Care	78,323,760	79,608,206	76,557,829
3.	Provision For Bad Debt	99,422,380	85,619,511	85,487,255
	Total Deductions	1,158,172,138	1,094,927,435	995,464,560
	NET OPERATING REVENUE	563,027,338	553,459,067	519,715,313
D.	Operating Expenses			
1.	Salaries And Wages	274,394,875	271,178,059	253,718,351
2.	Physician's Salaries And Wages	38,603,415	30,609,413	22,197,153
3.	Supplies	79,185,467	76,612,829	71,818,635
4.	Taxes	713,980	597,507	998,164
5.	Depreciation	26,569,378	25,799,614	26,945,792
6.	Rent	3,246,153	2,816,717	2,077,981
7.	Interest - Other Than Capital			
8.	Management Fees:			
	a. Fees To Affiliates			
	b. Fees To Non-Affiliates			
9.	Other Expenses	150,025,944	140,157,885	133,567,181
	Total Operating Expenses	572,739,212	547,772,024	511,323,257
E.	Other Revenue (Expenses) – Net (Specify)			
	NET OPERATING INCOME (LOSS)	- 9,711,873	5,687,043	8,392,056
F.	Capital Expenditures			
1.	Retirement Of Principal	7,396,156	7,824,776	12,356,219
2.	Interest	9,652,060	9,876,593	8,455,247
	Total Capital Expenditures	17,048,216	17,701,369	20,811,466
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	- 26,760,089	- 12,014,326	- 12,419,410

PROJECTED DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in July (Month).

		Year 1	Year 2
A.	Utilization Data	1,055	1,329
	(Specify Unit Of Measure) PET Scan Procedures		
B.	Revenue From Services To Patients		
	1. Inpatient Services		
	2. Outpatient Services	5,570,607	7,369,914
	3. Emergency Services		
	4. Other Operating Revenue		
	(Specify)		
	Gross Operating Revenue	5,570,607	7,369,914
C.	Deductions From Operating Revenue		
	1. Contractual Adjustments	3,937,729	5,248,107
	2. Provision For Charity Care	186,919	247,294
	3. Provision For Bad Debt	129,893	171,848
	Total Deductions	4,254,541	5,667,249
	NET OPERATING REVENUE	1,316,066	1,702,665
D.	Operating Expenses		
	1. Salaries And Wages	120,218	125,387
	2. Physician's Salaries And Wages		
	3. Supplies	1,978	2,606
	4. Taxes		
	5. Depreciation	456,250	456,250
	6. Rent		
	7. Interest - Other Than Capital		
	8. Management Fees:		
	a. Fees To Affiliates		
	b. Fees To Non-Affiliates		
	9. Other Expenses	187,351	534,512
	Total Operating Expenses	765,797	1,118,755
E.	Other Revenue (Expenses) -- Net		
	(Specify)		
	NET OPERATING INCOME (LOSS)	550,270	583,911
F.	Capital Expenditures		
	1. Retirement Of Principal		
	2. Interest		
	Total Capital Expenditures		
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	550,270	583,911

6. A. **Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges of projects that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.**

Response

Please see the list of average patient charges by THA service line for *Erlanger Medical Center* and other select acute care providers, for calendar year 2011, attached at the end of this CON application. Applicant does revise its patient charge structure on a periodic basis (i.e.- usually annually) during the budget cycle each fiscal year. However, applicant does not anticipate any changes to existing patient charges specifically as a result of this project.

B. **Compare the proposed charges to those of other facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services And Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).**

Response

Please see the list of average patient charges by THA service line for *Erlanger Medical Center* and other select acute care providers, for calendar year 2011, attached at the end of this CON application.

** Insert additional discussion here concerning charges for this particular project. **

7. **Discuss how projected utilization rates will be sufficient to maintain cost effectiveness.**

Response

Historically, EMC has been very cost efficient within the context of the overall healthcare delivery system. The inpatient net revenue per admission for local competitors in Chattanooga, Tennessee, is as follows.

Hospital	Avg. Net Revenue Per I/P Admission
Erlanger Medical Center	$ 11,664
Memorial Hospital	$ 10,433
Parkridge Medical Center	$ 13,033

Notes
(1) Information derived from Tennessee Joint Annual Reports for CY 2012, CY 2011 for Parkridge Medical Center.

While offering more complex services and capabilities, Erlanger has net revenue per inpatient admission comparable to other large area hospitals. *Erlanger Medical Center* is economically efficient, while incurring higher costs by offering more complex services including the only Level I trauma center, the only life-flight helicopter service, the only children's hospital, and the only Level III neonatal care in southeast Tennessee.

8. Discuss how financial viability will be ensured within two (2) years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

Response

** This response depends on how the pro-forma from Mike lee turns out. **

9. Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.

Response

Erlanger Medical Center, as a member facility of *Erlanger Health System*, currently participates in the following Federal / State programs.

Federal	Medicare
State	BlueCare TennCare Select United Healthcare Community Plan *(Children's Medical Services under age 21 & High Risk Maternity Only)* AmeriGroup Community Care

Anticipated revenue (gross charges) from Federal and State sources during year 1 of the project is as follows.

Medicare	$ 2,787,944
TennCare	$ 781,469
	$ 3,569,413

10. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility-10.

Response

Copies of the financial reports for Erlanger Health System are attached at the end of this CON application.

Interim Balance Sheet & Income Statement	May 31, 2013
Audited Financial Statements	June 30, 2012

11. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to,

A. A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If developments of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

Response

The proposed PET/CT unit fills an essential gap in diagnostic capability in a number of service lines at Erlanger including neurosciences and oncology. In these services, Erlanger already provides clinical leadership that is recognized in the region and beyond. In neurosciences, for example, the stroke program at Erlanger is recognized as one of the leading programs of its kind in the nation. Volume of patients served places it at the top of the list nationally. Erlanger has recently recruited a top epileptologist to supplement its deep expertise. Many patients who suffer from strokes also have seizures where the PET/CT can serve to gain further insight to causes, identifying potential opportunities for surgical intervention and improved outcomes for those served. Similarly for oncology patients, Erlanger already offers a comprehensive program, including the only Cyberknife in a 100 mile radius utilized for non-invasive surgery of tumors. Here again, the PET/CT can aid in diagnosis, assessment and planning to ensure the treatment plan is progressing to advance and improve patient outcomes.

Other initiatives like the 340B pharmacy program, only available at Erlanger because of its disproportionate share of low income patients, serves to make needed chemotherapeutic drugs available to those who would not otherwise have access to life sustaining medications. Affordability is an important ingredient in insuring access for those in need. The PET/CT is an essential diagnostic tool that will serve to advance the quality of care provided particularly for the under served who might otherwise not have access to this vital technology.

As *the* safety net hospital in Southeast Tennessee, it is vital that EMC enhance and update its facilities to provide the best imaging services available for the communities we serve. As an academic medical center affiliated with the University of Tennessee College of Medicine, which is co-located on the Erlanger campus, Erlanger seeks to provide appropriate

facilities so as to enhance the training and education of medical residents and fellows as well as other health professionals. Updating facilities also means planning for tomorrow with regard to PET/CT services for the regional service area, ensuring that the needs of the uninsured and/or low income population are being met.

In evaluating the utilization of PET scan units in Southeast Tennessee compared to the entire State of Tennessee there appears to be a significant disparity. Following is comparison of the PET/CT use rate per capita. As may be seen, the population of Southeast Tennessee is under served in terms of PET utilization by 29.4% in 2009, 21.3% in 2010 and 25.2% in 2011.

	===== CY 2011 =====		===== CY 2010 =====		===== CY 2009 =====	
	No. Of PET Units	Total Scans	No. Of PET Units	Total Scans	No. Of PET Units	Total Scans
Population - Tennessee		6,387,600		6,335,316		6,283,032
Totals - Tennessee	33.8	36,460	34.0	37,763	33.6	41,414
Mean Avg. - Per Capita	0.00000529	0.00570793	0.00000537	0.00596071	0.00000535	0.00659140
Population - Svc Area		620,231		616,083		611,935
Totals - Svc Area	3.0	2,648	3.0	2,891	3.0	2,849
Mean Avg. - Per Capita	0.00000484	0.00426938	0.00000487	0.00469255	0.00000490	0.00465572
Use Rate Disparity - Per Capita		-0.00143856		-0.00126816		-0.00193568
Use Rate Disparity - %		-25.2%		-21.3%		-29.4%

The service area for the PET/CT service is Southeast Tennessee. There are three (3) other PET/CT units located within the ten (10) county service area in Southeast Tennessee. However, it should be noted that Erlanger attracts patients from a much wider geography including Alabama, Georgia and North Carolina. In fact, Erlanger has transfer agreements with a total of 92 facilities including more than 40 hospitals.

B. The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.

Response

There are also considerations of "financial" access and availability to needed care. Since the other PET/CT providers do not share the same patient population, it can cause programmatic disruption in the treatment of cancer patients and adversely impact cost and continuity of care.

In evaluating the utilization of PET scan units in Southeast Tennessee compared to the entire State of Tennessee there appears to be a significant disparity. Following is comparison of the PET/CT use rate per capita. As may be seen, the population of Southeast Tennessee is under served in terms of PET utilization by 29.4% in 2009, 21.3% in 2010 and 25.2% in 2011.

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(III.) *CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE*

1. List all health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health

services.

Response

The most significant relationship between this proposal and the existing healthcare system is that it will be part of an existing health system and enhance *Erlanger Health System's* ability to integrate its services within the regional service area as the safety net provider, trauma center and region's only academic medical center.

By providing these services regardless of a patient's ability to pay, the regional healthcare delivery system is positively impacted by the services envisioned in the instant application.

The applicant currently has transfer arrangements with the following hospitals which are owned by *Erlanger Health System.*

-- Erlanger North Hospital
-- T. C. Thompson Children's Hospital
-- Erlanger East Hospital

Further, Erlanger currently has patient transfer agreements in place with more than 90 hospitals and other providers in the four (4) state area. These providers refer patients to Erlanger because of the depth and breadth of its programs and services. A copy of the list of transfer agreements is attached to this CON application.

2. **Describe the positive and / or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.**

Response

The effects of this proposal will be positive for the healthcare system because it will deliver the most appropriate level of care for those who are in need of service regardless of ability to pay. By providing the PET/CT service, the regional healthcare delivery system is positively impacted by serving as

the "safety net" for those who are otherwise in need of this highly specialized service.

3. Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTE's for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the *Tennessee Dept. Of Labor & Workforce Development* and/or other documented sources.

Response

Clinical staffing for the PET/CT service is anticipated to be 1.5 FTE's. The mid-point on Erlanger's pay scale for these positions will be $ 30.79 and the mid-point average hourly rate for the Chattanooga area is $ 30.24.

4. Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Dept. Of Health, the Dept. Of Mental Health & Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.

Response

The human resources required will be approached with a proactive recruitment action plan. Historically, Erlanger has met staffing requirements by utilizing a variety of methods. Thus, our approach to fulfill the staffing plan for the PET/CT service will consist of a proactive plan of marketing, screening, hiring, and training.

The Human Resources Department at Erlanger will work closely with managers in the transition. The specifics will be based on the needs of the organization and aligned with the strategic initiative of the new PET/CT service. Erlanger has actively been involved in the WorkForce Development movement on several different levels within the Chattanooga area and statewide. Current vacancy rates are below state and national averages.

Erlanger Health System participates with numerous schools that provide advanced training in the areas of nursing and allied health. Therefore, Erlanger expects no difficulty in recruitment of required staff given it's role as an academic medical center and it's affiliations with colleges and universities offering allied health and related training programs.

5. **Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review *policies and programs, record keeping, and staff education.***

Response

The Applicant has reviewed and intends to comply with all licensing and certification requirements imposed upon it by applicable statutes and regulations.

6. **Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).**

Response

Erlanger Health System, as the region's only academic medical center, has established strong long term relationships with the region's colleges, universities and clinical programs. Erlanger provides clinical sites for internships and rotation programs in nursing, radiology, respiratory, pharmacy and surgery technology, to name a few.

A number of regional universities offer Bachelor degree programs in nursing and physical therapy. Erlanger works closely with the University of Tennessee at Chattanooga to assist nurses transitioning from RN to BSN. Erlanger provides a teaching environment for staff as well with various on-the-job training opportunities (ex: CT for Radiologic Technologist, Certification for LPNs). Locally, two year degrees are available in many clinical allied health areas with additional

programs offering advanced technical training in Radiological Imaging such as Nuclear Medicine, Diagnostic Ultrasonography, etc. Erlanger Health System participates with numerous schools that provide advanced training in the areas of nursing and allied health.

Further, affiliation with the University of Tennessee - College of Medicine includes training of senior medical students on clinical rotation as well as graduate medical education for training of residents and advanced fellowships in various specialties, as outlined below.

Residency Programs
- Emergency Medicine
- Family Medicine
- Internal Medicine
- Obstetrics & Gynecology
- Orthopedic Surgery
- Pediatrics
- Plastic Surgery
- Surgery
- Transitional Year

Fellowship Programs
- Geriatrics
- Hospice & Palliative Care
- Orthopedic Surgery - Traumatology
- Surgical Critical Care
- Vascular Surgery
- Colon & Rectal Surgery

7. (a) **Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Dept. Of Health, the Dept. Of Mental Health & Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.**

Response

The Applicant has reviewed and intends to comply with all licensing and certification requirements imposed by applicable statutes and regulations.

(b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and / or accreditation.

Licensure: State of Tennessee, Dept. of Health

Accreditation: The Joint Commission

(c) If an existing institution, please describe the Current standing with any licensing, certifying, or accrediting agency or commission. Provide a copy of the current license of the facility.

Response

Erlanger Health System continuously strives to comply with applicable regulations and make needed changes where deficiencies may arise to ensure full compliance. A copy of the current license from the Tennessee Dept. of Health is attached to this CON application. Further, a copy of the most recent *Letter Of Accreditation* from *The Joint Commission* is attached to this CON application.

(d) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

Response

A copy of the most recent licensure/certification survey report with an approved plan of correction is attached at the end of this CON application.

8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5 % ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

Response

*** Not Applicable. ***

9. **Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5 % ownership interest in the project.**

Response

*** Not Applicable. ***

10. **If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services And Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.**

Response

Applicant will provide the Health Services & Development Agency with appropriate information in the consideration of this CON application.

PROOF OF PUBLICATION 2013 JUL 15 AM 9 24

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

Attached is a copy of the *Letter Of Intent* which was filed with the *Tennessee Health Services & Development Agency* on July 10, 2013. The original publication affidavit is also attached.

DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for cause shown. Subsequent to granting a Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.

   Response

   The Project Completion Forecast Chart has been completed and appears on the following page.

2. If the response to the preceding question indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph, please state below any request for an extended schedule and document the "good cause" for such an extension.

   Response

   *** Not Applicable. ***

2013 JUL 15 AM 9 24

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision Date, as published in Rule 68-11-1609(c): Oct. 23, 2013

Assuming the CON approval becomes the final Agency action on that date; indicate the number of days from the above agency decision date to each phase of the completion forecast.

PHASE		Days Required	Anticipated Date (MONTH / YEAR)
1.	Architectural and engineering contract signed.	90	Jan, 2014
2.	Construction documents approved by the *Tennessee Dept. Of Health.*	45	Mar, 2014
3.	Construction contract signed.	45	Apr, 2014
4.	Building permit secured.	14	May, 2014
5.	Site preparation completed.	N/A	
6.	Building construction commenced.	7	May, 2014
7.	Construction 40 % complete.	60	Jul, 2014
8.	Construction 80 % complete.	30	Aug, 2014
9.	Construction 100 % complete (approved for occupancy.	30	Sep, 2014
10.	*Issuance of license.	30	Oct, 2014
11.	*Initiation of service.	7	Oct, 2014
12.	Final Architectural Certification Of Payment.	30	Nov, 2014
13.	Final Project Report Form (HF0055).	30	Dec, 2014

(*) **For projects that do NOT involve construction or renovation, please complete items 10 and 11 only.**

NOTE – If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

2013 JUL 15 AM 9 24

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF HAMILTON

Joseph M. Winick, being first duly sworn, says that he / she is the applicant named in this application or his / her / it's lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services & Development Agency, and T.C.A. § 68-11-1601, *et seq*, and that the responses to this application or any other questions deemed appropriate by the Health Services & Development Agency are true and complete.

SIGNATURE

SWORN to and subscribed before me this 10th of July (Month), 2013 (Year), a Notary Public in and for the State of Tennessee, County of Hamilton.

NOTARY PUBLIC

RUTH ANNE BELL STATE OF TENNESSEE NOTARY PUBLIC HAMILTON COUNTY

My commission expires 9/17 (Month / Day), 2014.

TABLE OF ATTACHMENTS

** NOTE - The attachments are paginated and the page number begins with "A". The page number appears in the upper right hand corner of the page.

ATTACHMENTS

A-2

classifieds

SECTION F

Chattanooga Times Free Press

Wednesday, July 10, 2013

F4 • Wednesday, July 10, 2013 • • •

LEGAL NOTICES LEGAL NOTICES

NOTIFICATION OF INTENT TO APPLY FOR CERTIFICATE OF NEED

This is to provide official notice to the Health Services & Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601 et. seq., and the Rules of the Health Services & Development Agency, that Erlanger Medical Center, owned by the Chattanooga-Hamilton County Hospital Authority D/B/A Erlanger Health System, with an ownership type of governmental, and to be managed by itself, intends to file an application for a Certificate of Need for a Positron Emission Tomography / Computed Tomography (PET/CT) Scanner. No other health care services will be initiated or discontinued.

The facility and equipment will be located in Erlanger Medical Center, at 975 East 3rd Street, Chattanooga, Hamilton County, Tennessee 37403. The total project cost is estimated to be $ 4,540,471.00.

The anticipated date of filing the application is July 15, 2013. The contact person for this project is Joseph M. Winick, Sr. Vice President, Erlanger Health System, 975 East 3rd Street, Chattanooga, Tennessee 37403, and by phone at (423) 778-7274.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted.

Written requests for hearing should be sent to:
Health Services & Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

35911462

Pursuant to T.C.A. § 68-11-1607(c)(1): (A) Any health care institution wishing to oppose a Certificate Of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

2788719
ERLANGER STRATEGIC
2013 JUL 15 AM 9 24
CERTIFICATE OF NEED AD

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STATE OF TENNESSEE
HAMILTON COUNTY

Before me personally appeared Pam Saynes who being duly sworn, that she is the Legal Sales Representative of the "CHATTANOOGA TIMES FREE PRESS" and that the Legal Ad of which the attached is a true copy, has been published in the above said Newspaper on the following dates, to-wit:

July 10, 2013

And that there is due or has been paid the "CHATTANOOGA TIMES FREE PRESS" for publication of such notice the sum of $245.52 Dollars. (Includes $10.00 Affidavit Charge).

Pam Saynes

Sworn to and subscribed before me, this 10th day of July 2013.

Jessica Myers

My Commission Expires 7/20/2016

JESSICA MYERS
STATE OF TENNESSEE NOTARY PUBLIC
HAMILTON COUNTY

Chattanooga Times Free Press

2013 JUL 15 AM 9 24

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NOTIFICATION OF INTENT TO APPLY FOR CERTIFICATE OF NEED

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SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART

A. Unit / Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage			Proposed Final Cost/ SF		
					Renovated	New	Total	Renovated	New	Total
PET Scan Room	N/A	417	N/A	MM 1 - Radiology	417	N/A	417	1,716.74		715,880.50
Control room	N/A	145	N/A	MM 1 - Radiology	145	N/A	145	1,716.74		248,927.30
Hot Lab	MM 1 Radiology	230	N/A	MM 1 - Radiology	230	N/A	230	1,716.74		394,850.20
Uptake Room	N/A	346	N/A	MM 1 - Radiology	346	N/A	346	1,716.74		593,992.04
Nuclear Med Room	MM 1 - Radiology	250	N/A	MM 1 - Radiology	250	N/A	250	1,716.74		429,185.00
Equipment Room	N/A	140	N/A	MM 1 - Radiology	140	N/A	140	1,716.74		240,343.60
Recovery Room	N/A	330	N/A	MM 1 Radiology	330	N/A	330	1,716.74		566,524.20
B. Unit/Depart. GSF Sub-Total										
C. Mechanical/ Electrical GSF										
D. Circulation /Structure GSF										
E. Total GSF		1858			1858		1858			3,189,702.84

erlanger

July 8, 2013

To: **Ms. Melanie Hill, Executive Director**
Health Services and Development Agency
State of Tennessee
161 Rosa L. Parks Blvd.
Nashville, TN 37243

Re: **Verification of the CON Budget Summary**
Erlanger Baroness Campus
Medical Mall Radiology Department
PET Scan Equipment Installation
975 East Third Street
Chattanooga, TN 37403

Dear Ms. Hill,

We have reviewed the EHS Project # 4495 CON Budget Summary for the proposed PET Scan Equipment Installation project for the Medical Mall Radiology Department, a part of the Erlanger Health System. The CON Budget Summary dated 07/08/13 is based on a preliminary schematic design which includes; mechanical/electrical upgrades, IT modifications, Clinical Engineering upgrades, medical equipment costs, and facilities and infrastructure modifications. The scope of work will affect approximately 1,858 sf within the current Nuclear Medicine Department, at a projected cost of $3,189,709.00, or $1,716.74 / sf., excluding FMV and extended maintenance contracts.

Submitting an opinion of probable costs, we as the owner, accept and understand we do not have any control over materials, labor, or equipment availability, current market conditions, or the projected contractor's method of pricing. The EHS Planning and Construction Departments projections of probable project costs are based on a compilation of historical data of similar projects, and industry standard prescribed methods of estimating.

All additional planning and design work to be completed by the EHS corporate architect, or a selected architect-of-record, will be compliant with all applicable federal, state, and local codes and ordinances, to include the current adopted Tennessee Department of Health licensing requirements. The final design will conform to all manufacturer's equipment specifications and a Medical Physicist's recommendations.

In our opinion the projected costs are reasonable for this scope of work, size and type of project, and compares favorably with similar projects within this market. If you have any further questions or comments please feel free to contact me at 423-778 6510(of), or 423-298-3950 (c).

Sincerely,

Chuck Arnold, Architect/Planner
Erlanger Health System
TN License 102349

Enc.

975 E. Third Street, Chattanooga, TN 37403

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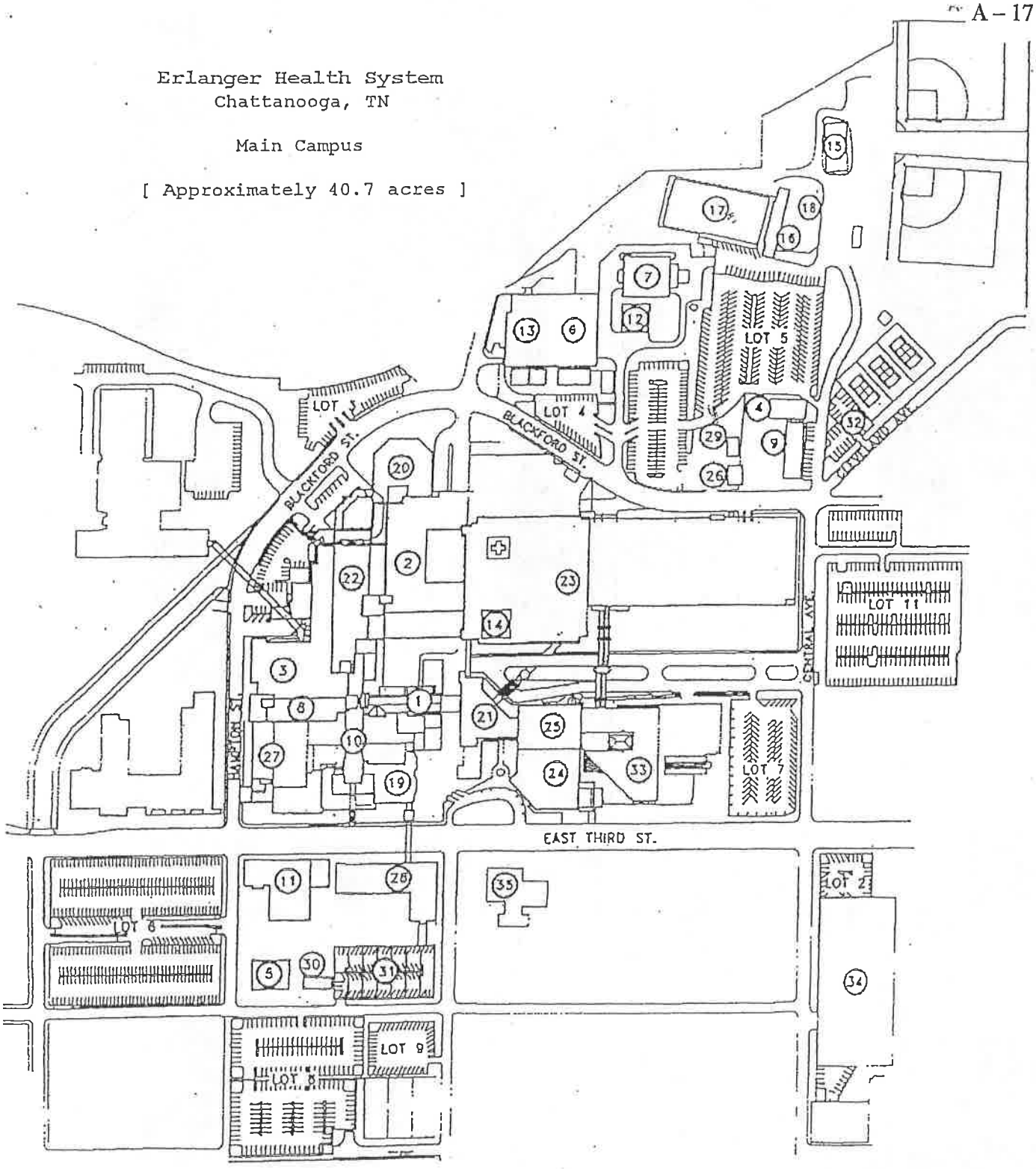
Erlanger Health System
Chattanooga, TN

Main Campus

[Approximately 40.7 acres]



1. 38 ADDITION
2. ANCILLARY EAST
3. ANCILLARY WEST
4. ENGINEERING TRAILER
5. CARPENTER SHOP
6. CENTRAL ENERGY PLANT
7. CENTRAL INCINERATOT PLANT
8. CENTRAL WING
9. CONSTRUCTION SERVICES BUILDING
10. EAST WING
11. FILLAUER BUILDING
12. GENERATOR BUILDING
13. LAUNDRY
14. LIFE-FORCE HANGER
19. MAGNETIC RESONANCE IMAGING
20. MASSOUD PEDIATRIC BUILDING
21. MILLER EYE CENTER
22. NORTH WING
23. PARKING GARAGE
24. PLAZZA AMBULATORY CARE
25. PROFESSIONAL OFFICE BUILDING
26. TAG-A-LONG TOTS
27. WEST WING
28. WHITEHALL BUILDING
29. MEDICADE QUALIFIERS
30. INHOUSE CONSTRUCTION SHOP
31. WHITEHALL PARKING GARAGE
32. VALET PARKING
33. MEDICAL MALL

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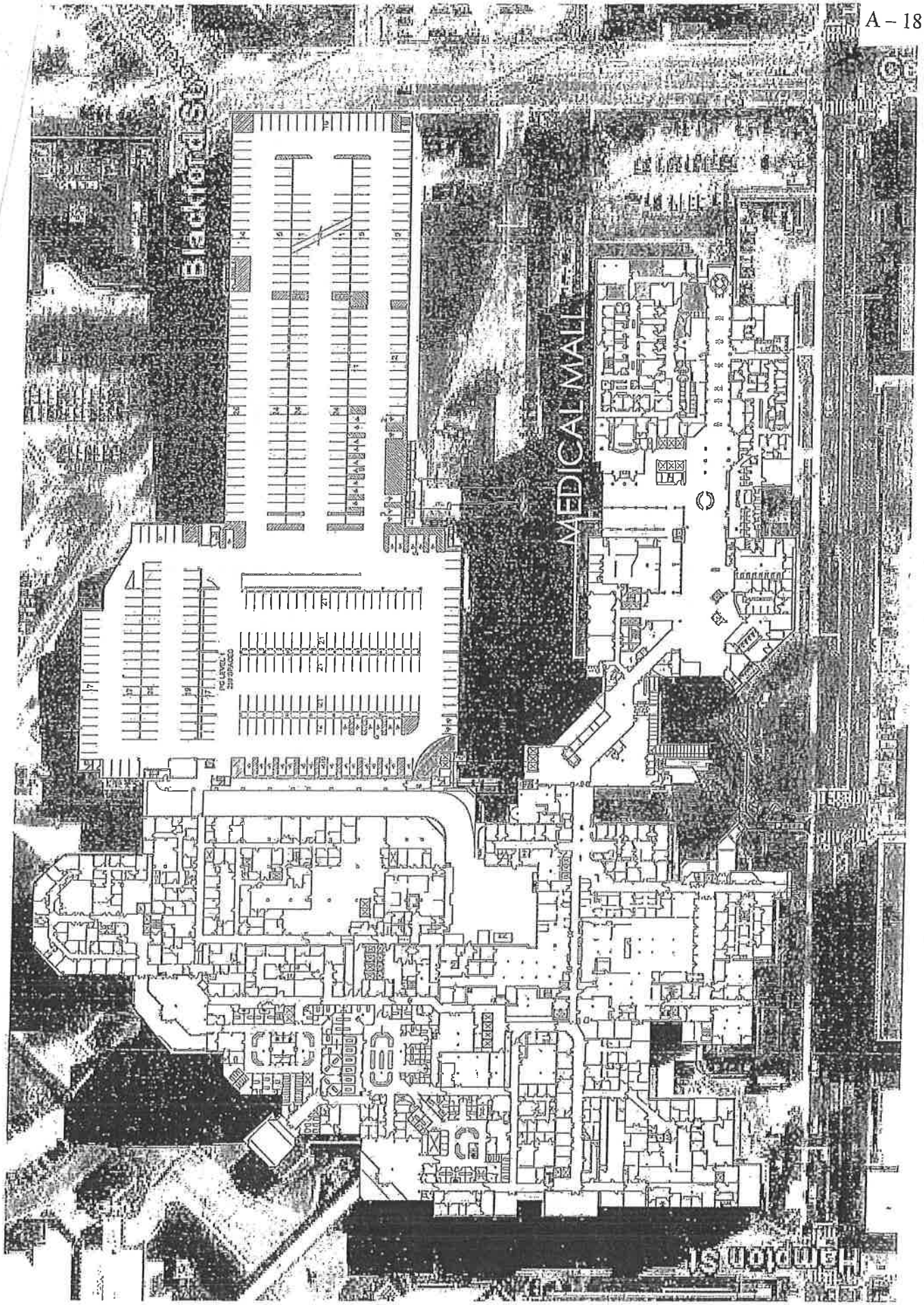
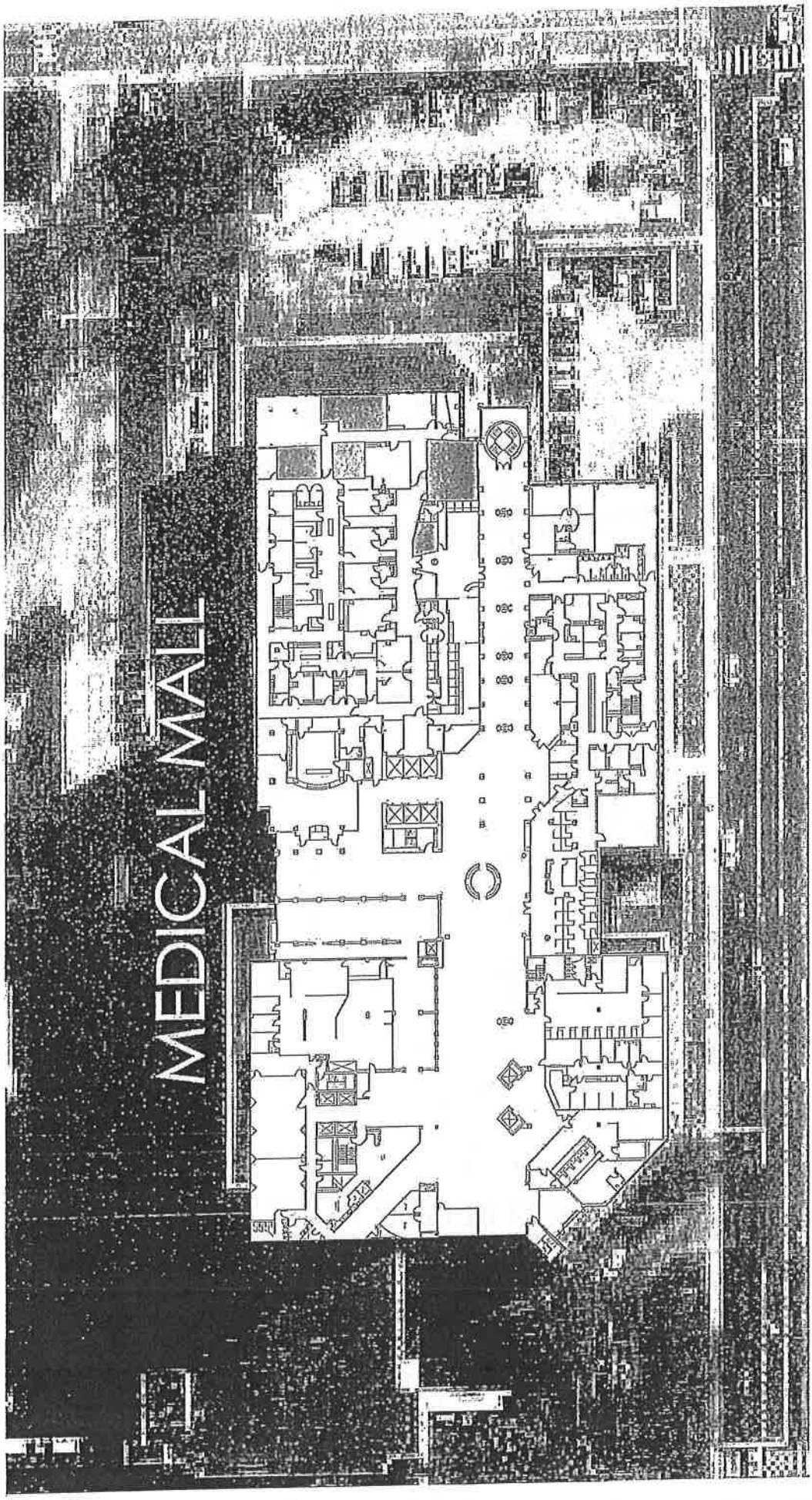
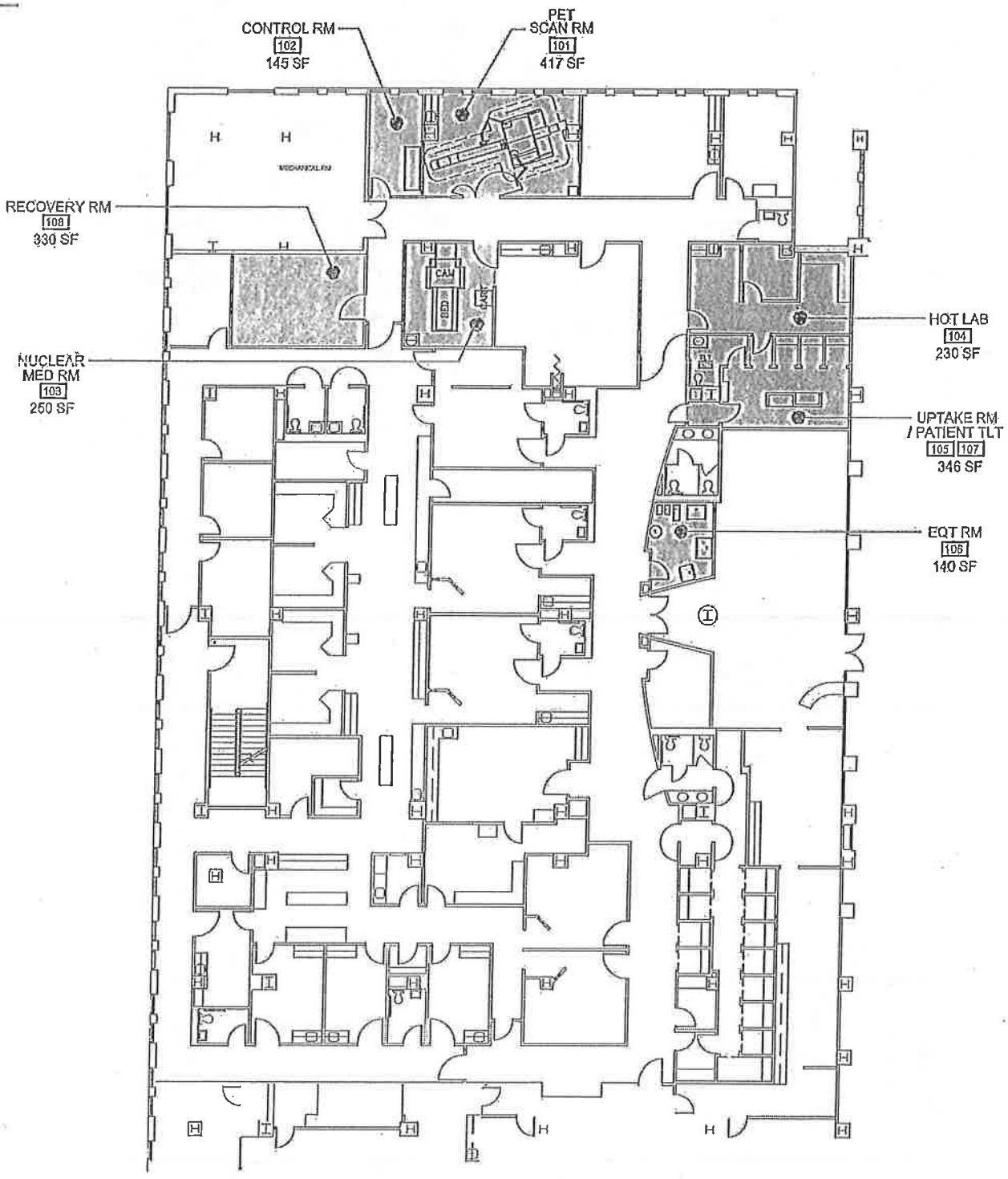


A – 19



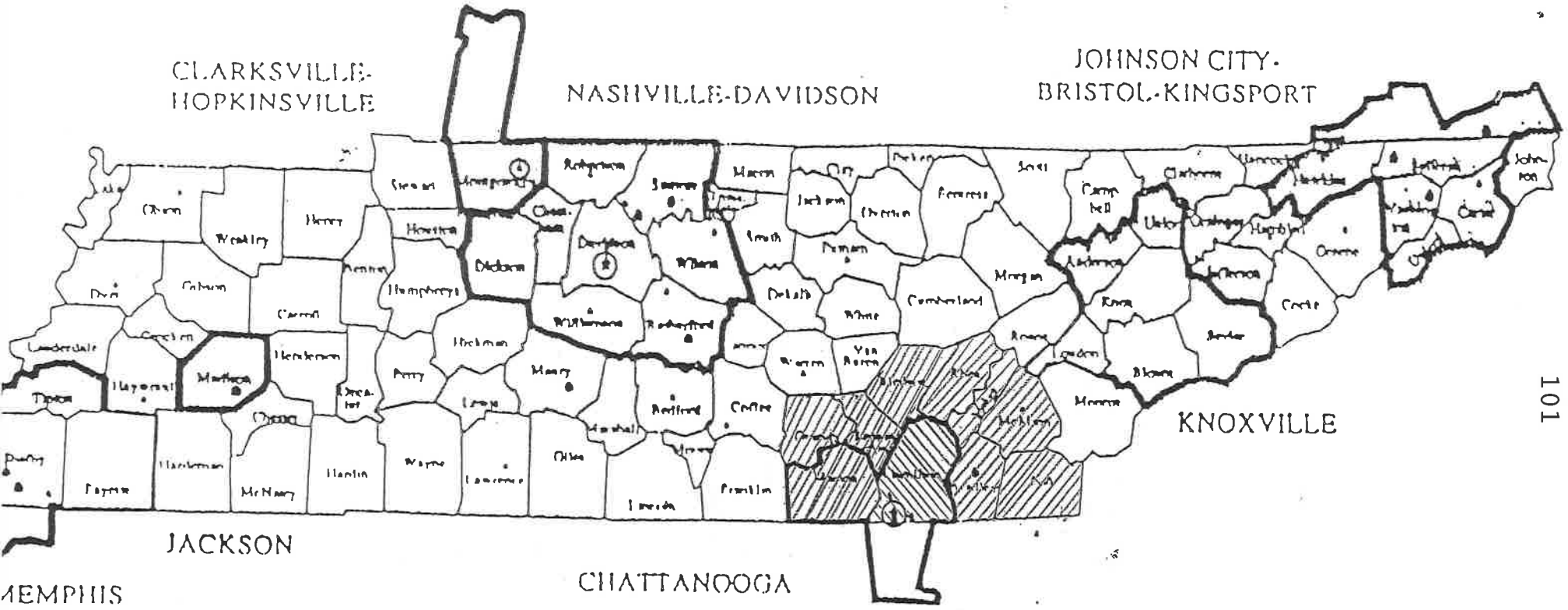
A – 20



PROPOSED FLOOR PLAN

PET SCAN EQUIPMENT INSTALLATION SCALE: N.T.S.

erlanger Health System 975 East Third Street, Chattanooga TN, 37403	ERLANGER BARONESS CAMPUS Medical Mall - Radiology PET Scan Equipment Installation	SHEET NO: SUP-A1.1
	PROJECT NO: 449500 | DATE: 07/09/13	


CLARKSVILLE-
HOPKINSVILLE
NASHVILLE-DAVIDSON
JOHNSON CITY-
BRISTOL-KINGSPORT
KNOXVILLE
JACKSON
CHATTANOOGA
MEMPHIS
Primary Service Area
Secondary Service Area

erlanger

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July 9, 2013

Ms. Melanie M. Hill, Executive Director
Tennessee Health Services & Development Agency
500 Deadrick Street, Ste. 850
Nashville, TN 37243

RE: PET/CT Scanner
Erlanger Medical Center

Dear Ms. Hill,

This letter serves to confirm Erlanger's intent to fund the cost of the new PET/CT scanner of $ 4,540,471 with funds from operations, subject to CON approval as well as approval of the Chattanooga-Hamilton County Hospital Authority.

Please let me know if you have any questions or need further information. Thank you for your consideration.

Sincerely,

J. Britton Tabor, CPA
Sr. V. P. & Chief Financial Officer

EHS -- Analysis Of Average Total Charge
Per Inpatient Admision -- By THA Service Line
For CY 2011

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	Erlanger Med Ctr	Memorial Hosp	Parkridge Med Ctr	St Thomas Hosp	UT Med Ctr
Adverse Effects	23,723	20,701	22,958	16,815	27,873
Back & Spine	57,501	63,560	51,782	54,146	63,043
Burns	18,791	21,508			16,057
Cardiac Surgery	113,138	114,864	163,256	144,366	97,715
Dermatology	11,890	19,317	20,501	13,812	15,708
Electrophysiology / Devices	68,382	76,270	100,428	82,094	103,453
Endocrinology	14,942	23,361	25,250	16,184	19,582
Gastroenterology	20,623	22,558	34,158	19,368	21,652
General Cardiology	19,947	22,400	29,766	18,542	20,795
General Surgery	55,456	41,832	57,541	42,184	53,979
Gynecology	26,479	25,606	30,608	29,516	25,028
Hematology	17,956	20,205	37,207	22,907	18,620
HIV Infection	45,797	51,779	102,561	41,444	25,812
Infectious Diseases	53,221	41,868	65,890	50,396	39,489
Invasive Cardiology	37,259	39,912	73,990	43,744	46,864
Neonatology	72,902				49,076
Nephrology	19,191	22,423	28,555	16,816	21,671
Neurology	27,851	24,725	33,464	22,407	27,332
Neurosurgery	71,379	31,584	46,439	47,719	62,389
Obstetrics	10,729	17,747	80,752	16,707	9,621
Oncology	29,147	27,219	39,328	29,731	27,254
Ophthalmology	16,807	20,476	18,427	16,134	22,581
Oral surgery	21,194	22,031	26,484	12,056	22,473
Orthopedics	44,210	38,405	49,524	48,550	47,160
Other	51,168	59,652	87,406	59,515	62,504
Otolaryngology	26,128	29,198	31,201	17,456	39,836
Plastic Surgery	57,210	27,998	53,707	40,758	37,809
Psychiatry	16,611	17,614	36,297	24,741	22,397
Pulmonary Medicine	73,713	38,780	53,275	43,650	65,297
Rheumatology	24,070	57,363	59,277	49,994	29,082
Signs & Symptoms	16,694	16,932	25,140	13,909	18,155
Substance Abuse	20,183	19,820	24,910	14,853	19,706
Thoracic Surgery	38,416	50,579	77,261	68,043	37,510
Transplant Surgery	105,402			553,257	106,517
Urology	33,055	31,977	44,290	35,671	36,310
Vascular Diseases	17,295	23,437	17,369	16,010	20,400
Vascular Surgery	57,287	66,425	81,875	59,029	78,074
Total	37,747	37,713	51,689	41,851	38,642

Source: EHS Planning

7/11/2013 12:01 PM

TractManager

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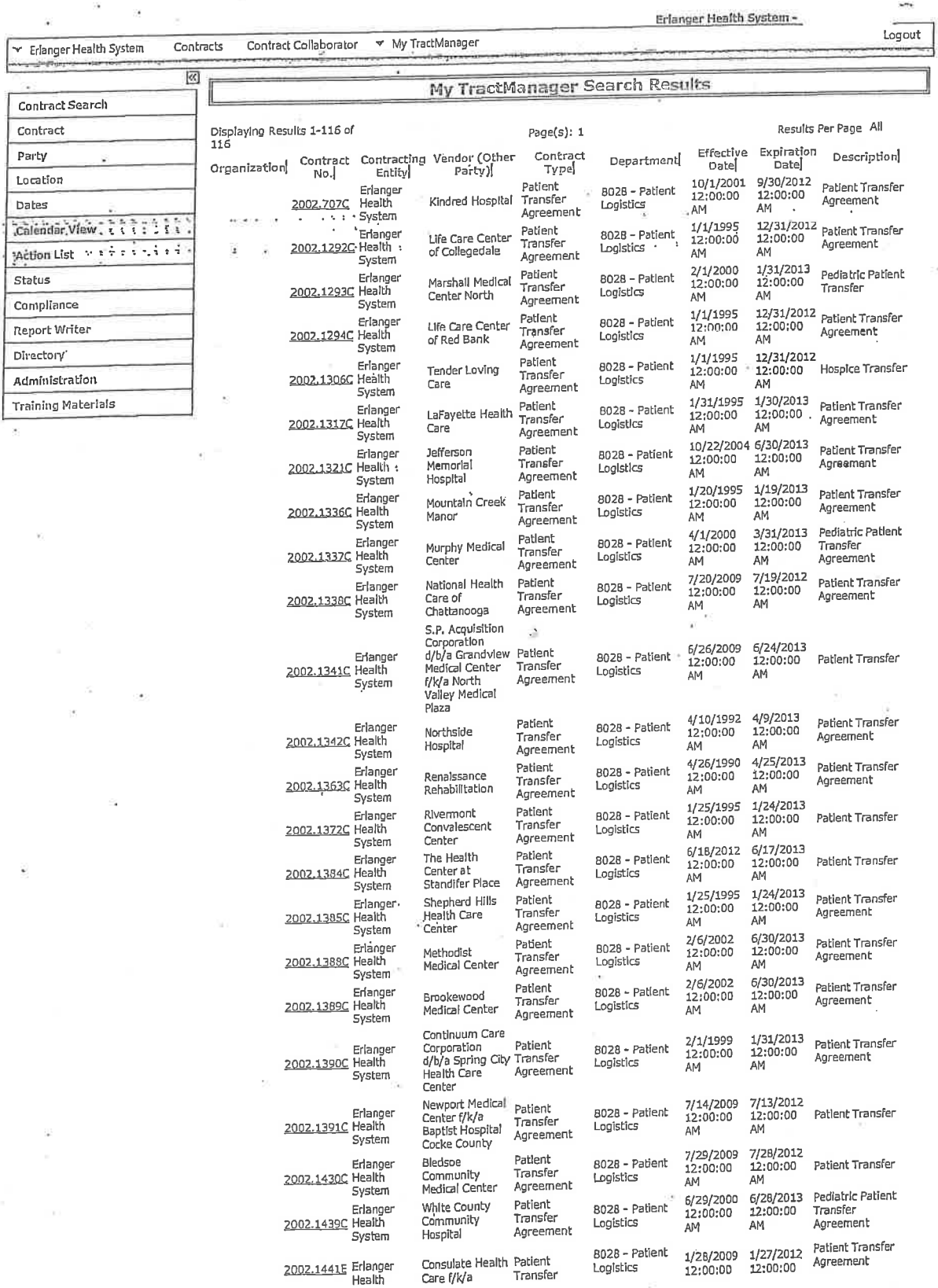

Erlanger Health System -

Erlanger Health System | Contracts | Contract Collaborator | My TractManager | Logout

- Contract Search
- Contract
- Party
- Location
- Dates
- Calendar View
- Action List
- Status
- Compliance
- Report Writer
- Directory
- Administration
- Training Materials

My TractManager Search Results

Displaying Results 1-116 of 116 | Page(s): 1 | Results Per Page All

Organization	Contract No.	Contracting Entity	Vendor (Other Party)	Contract Type	Department	Effective Date	Expiration Date	Description
	2002.707C	Erlanger Health System	Kindred Hospital	Patient Transfer Agreement	8028 - Patient Logistics	10/1/2001 12:00:00 AM	9/30/2012 12:00:00 AM	Patient Transfer Agreement
	2002.1292C	Erlanger Health System	Life Care Center of Collegedale	Patient Transfer Agreement	8028 - Patient Logistics	1/1/1995 12:00:00 AM	12/31/2012 12:00:00 AM	Patient Transfer Agreement
	2002.1293C	Erlanger Health System	Marshall Medical Center North	Patient Transfer Agreement	8028 - Patient Logistics	2/1/2000 12:00:00 AM	1/31/2013 12:00:00 AM	Pediatric Patient Transfer
	2002.1294C	Erlanger Health System	Life Care Center of Red Bank	Patient Transfer Agreement	8028 - Patient Logistics	1/1/1995 12:00:00 AM	12/31/2012 12:00:00 AM	Patient Transfer Agreement
	2002.1306C	Erlanger Health System	Tender Loving Care	Patient Transfer Agreement	8028 - Patient Logistics	1/1/1995 12:00:00 AM	12/31/2012 12:00:00 AM	Hospice Transfer
	2002.1317C	Erlanger Health System	LaFayette Health Care	Patient Transfer Agreement	8028 - Patient Logistics	1/31/1995 12:00:00 AM	1/30/2013 12:00:00 AM	Patient Transfer Agreement
	2002.1321C	Erlanger Health System	Jefferson Memorial Hospital	Patient Transfer Agreement	8028 - Patient Logistics	10/22/2004 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
	2002.1336C	Erlanger Health System	Mountain Creek Manor	Patient Transfer Agreement	8028 - Patient Logistics	1/20/1995 12:00:00 AM	1/19/2013 12:00:00 AM	Patient Transfer Agreement
	2002.1337C	Erlanger Health System	Murphy Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	4/1/2000 12:00:00 AM	3/31/2013 12:00:00 AM	Pediatric Patient Transfer Agreement
	2002.1338C	Erlanger Health System	National Health Care of Chattanooga	Patient Transfer Agreement	8028 - Patient Logistics	7/20/2009 12:00:00 AM	7/19/2012 12:00:00 AM	Patient Transfer Agreement
	2002.1341C	Erlanger Health System	S.P. Acquisition Corporation d/b/a Grandview Medical Center f/k/a North Valley Medical Plaza	Patient Transfer Agreement	8028 - Patient Logistics	6/26/2009 12:00:00 AM	6/24/2013 12:00:00 AM	Patient Transfer
	2002.1342C	Erlanger Health System	Northside Hospital	Patient Transfer Agreement	8028 - Patient Logistics	4/10/1992 12:00:00 AM	4/9/2013 12:00:00 AM	Patient Transfer Agreement
	2002.1363C	Erlanger Health System	Renaissance Rehabilitation	Patient Transfer Agreement	8028 - Patient Logistics	4/26/1990 12:00:00 AM	4/25/2013 12:00:00 AM	Patient Transfer Agreement
	2002.1372C	Erlanger Health System	Rivermont Convalescent Center	Patient Transfer Agreement	8028 - Patient Logistics	1/25/1995 12:00:00 AM	1/24/2013 12:00:00 AM	Patient Transfer
	2002.1384C	Erlanger Health System	The Health Center at Standifer Place	Patient Transfer Agreement	8028 - Patient Logistics	6/18/2012 12:00:00 AM	6/17/2013 12:00:00 AM	Patient Transfer
	2002.1385C	Erlanger Health System	Shepherd Hills Health Care Center	Patient Transfer Agreement	8028 - Patient Logistics	1/25/1995 12:00:00 AM	1/24/2013 12:00:00 AM	Patient Transfer Agreement
	2002.1388C	Erlanger Health System	Methodist Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	2/6/2002 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
	2002.1389C	Erlanger Health System	Brookewood Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	2/6/2002 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
	2002.1390C	Erlanger Health System	Continuum Care Corporation d/b/a Spring City Health Care Center	Patient Transfer Agreement	8028 - Patient Logistics	2/1/1999 12:00:00 AM	1/31/2013 12:00:00 AM	Patient Transfer Agreement
	2002.1391C	Erlanger Health System	Newport Medical Center f/k/a Baptist Hospital Cocke County	Patient Transfer Agreement	8028 - Patient Logistics	7/14/2009 12:00:00 AM	7/13/2012 12:00:00 AM	Patient Transfer
	2002.1430C	Erlanger Health System	Bledsoe Community Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	7/29/2009 12:00:00 AM	7/28/2012 12:00:00 AM	Patient Transfer
	2002.1439C	Erlanger Health System	White County Community Hospital	Patient Transfer Agreement	8028 - Patient Logistics	6/29/2000 12:00:00 AM	6/28/2013 12:00:00 AM	Pediatric Patient Transfer Agreement
	2002.1441E	Erlanger Health	Consulate Health Care f/k/a	Patient Transfer	8028 - Patient Logistics	1/28/2009 12:00:00	1/27/2012 12:00:00	Patient Transfer Agreement

TractManager

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	System	Stratford House	Agreement		AM	AM	
2002.1446C	Erlanger Health System	The University of Tennessee Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	5/29/2002 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
2002.1461C	Erlanger Health System	Erlanger Bledsoe	Patient Transfer Agreement	8028 - Patient Logistics	10/1/2001 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
2002.1483C	Erlanger Health System	Cookeville Regional Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	2/10/2010 12:00:00 AM	2/9/2013 12:00:00 AM	Patient Transfer Agreement
2002.1498C	Erlanger Health System	Scott County Hospital	Patient Transfer Agreement	8028 - Patient Logistics	1/11/2001 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
2002.1499C	Erlanger Health System	Wellmont Health Systems	Patient Transfer Agreement	8028 - Patient Logistics	6/30/2001 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
2002.1502C	Erlanger Health System	Laughlin Memorial Hospital, Inc	Patient Transfer Agreement	8028 - Patient Logistics	11/23/2011 12:00:00 AM	11/22/2012 12:00:00 AM	Patient Transfer Agreement
2002.1539C	Erlanger Health System	Fort Sanders Park West Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	10/22/1999 12:00:00 AM	10/21/2012 12:00:00 AM	Patient Transfer Agreement
2002.1540C	Erlanger Health System	Ft Oglethorpe Nursing Home	Patient Transfer Agreement	8028 - Patient Logistics	1/12/2012 12:00:00 AM	1/11/2013 12:00:00 AM	Patient Transfer Agreement
2002.1550C	Erlanger Health System	Johnson City Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	5/29/2002 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
2002.1576C	Erlanger Health System	Life Care Center of Chattanooga	Patient Transfer Agreement	8028 - Patient Logistics	1/25/1995 12:00:00 AM	1/24/2013 12:00:00 AM	Patient Transfer Agreement
2002.1594C	Erlanger Health System	St Barnabas Nursing Home	Patient Transfer Agreement	8028 - Patient Logistics	1/25/1995 12:00:00 AM	1/24/2013 12:00:00 AM	Patient Transfer Agreement
2002.1599C	Erlanger Health System	North Jackson Hospital	Patient Transfer Agreement	8028 - Patient Logistics	2/1/2000 12:00:00 AM	1/31/2013 12:00:00 AM	Pediatric Patient Transfer Agreement
2002.1605C	Erlanger Health System	National Healthcare of Rossville	Patient Transfer Agreement	8028 - Patient Logistics	5/17/2012 12:00:00 AM	5/16/2013 12:00:00 AM	Patient Transfer Agreement
2002.1606C	Erlanger Health System	National Health Care of Fort Oglethorpe	Patient Transfer Agreement	8028 - Patient Logistics	5/22/2012 12:00:00 AM	5/21/2013 12:00:00 AM	Patient Transfer Agreement
2002.1607C	Erlanger Health System	National Healthcare of Dunlap	Patient Transfer Agreement	8028 - Patient Logistics	6/20/2012 12:00:00 AM	6/19/2013 12:00:00 AM	Patient Transfer Agreement
2002.1608C	Erlanger Health System	National Healthcare of Athens	Patient Transfer Agreement	8028 - Patient Logistics	5/15/2012 12:00:00 AM	5/14/2013 12:00:00 AM	Patient Transfer Agreement
2002.1623C	Erlanger Health System	Shriners Hospitals for Children	Patient Transfer Agreement	8028 - Patient Logistics	7/1/2000 12:00:00 AM	6/30/2013 12:00:00 AM	Pediatric Patient Transfer Agreement
2002.1634C	Erlanger Health System	Rhea Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	2/6/2002 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
2002.1670C	Erlanger Health System	Alexian Village of Chattanooga	Patient Transfer Agreement	8028 - Patient Logistics	1/1/1995 12:00:00 AM	12/31/2012 12:00:00 AM	Patient Transfer Agreement
2002.1685C	Erlanger Health System	Blount Memorial Hospital	Patient Transfer Agreement	8028 - Patient Logistics	2/7/2001 12:00:00 AM	2/6/2013 12:00:00 AM	Pediatric Patient Transfer Agreement
2002.1686E	Erlanger Health System	Bradley Healthcare & Rehabilitation f/k/a Bradley County Nursing Home	Patient Transfer Agreement	8028 - Patient Logistics	3/23/2009 12:00:00 AM	3/22/2012 12:00:00 AM	Patient Transfer Agreement
2002.1709C	Erlanger Health System	Chattanooga Surgery Center	Patient Transfer Agreement	8028 - Patient Logistics	11/17/2010 12:00:00 AM	11/16/2012 12:00:00 AM	Patient Transfer Agreement
2002.1714C	Erlanger Health System	Columbia Indian Path Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	1/13/1997 12:00:00 AM	1/12/2013 12:00:00 AM	Patient Transfer Agreement
2002.1715C	Erlanger Health System	Columbia East Ridge Hospital	Patient Transfer Agreement	8028 - Patient Logistics	3/31/1998 12:00:00 AM	3/30/2013 12:00:00 AM	Pediatric Patient Transfer Agreement
2002.1716C	Erlanger Health System	East Ridge Hospital	Patient Transfer Agreement	8028 - Patient Logistics	10/22/1996 12:00:00 AM	10/21/2012 12:00:00 AM	Patient Transfer Agreement
2002.1717C	Erlanger Health System	NovaMed Eye and Laser Surgery, Center of	Patient Transfer Agreement	8028 - Patient Logistics	6/27/2002 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
2002.1750C	Erlanger Health System	Jamestown Regional Medical Center, f/k/a Fentress County Hospital	Patient Transfer Agreement	8028 - Patient Logistics	5/14/2012 12:00:00 AM	5/13/2013 12:00:00 AM	Patient Transfer Agreement
2002.1751C	Erlanger Health	Gadsden Regional Medical	Patient Transfer	8028 - Patient Logistics	8/11/2009 12:00:00	8/10/2012 12:00:00	Patient Transfer Agreement

	System	Center	Agreement		AM	AM	
2002.1753C	Erlanger Health System	Emory Cartersville Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	5/21/2012 12:00:00 AM	5/20/2013 12:00:00 AM	Patient Transfer Agreement
2002.1766C	Erlanger Health System	Healthsouth Chattanooga Surgery Center	Patient Transfer Agreement	8028 - Patient Logistics	4/13/1999 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
2002.1768C	Erlanger Health System	Harton Regional Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	12/8/2011 12:00:00 AM	12/7/2012 12:00:00 AM	Patient Transfer Agreement
2002.2377C	Erlanger Health System	St Mary's Health System, Inc	Patient Transfer Agreement	8028 - Patient Logistics	4/1/2003 12:00:00 AM	3/31/2013 12:00:00 AM	Patient Transfer Agreement
2002.2531E	Erlanger Health System	Memorial North Park Hospital	Patient Transfer Agreement	8028 - Patient Logistics	3/10/2009 12:00:00 AM	3/9/2012 12:00:00 AM	Patient Transfer Agreement
2002.2690E	Erlanger Health System	United Regional Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	9/28/2008 12:00:00 AM	9/28/2011 12:00:00 AM	Patient Transfer Agreement
2002.2692C	Erlanger Health System	Southern Tennessee Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	9/29/2010 12:00:00 AM	9/28/2012 12:00:00 AM	Patient Transfer Agreement
2002.2693C	Erlanger Health System	Riverview Regional Medical Center North, f/k/a Smith County Hospital	Patient Transfer Agreement	8028 - Patient Logistics	12/5/2011 12:00:00 AM	12/4/2012 12:00:00 AM	Patient Transfer Agreement
2002.2694E	Erlanger Health System	Siskin Hospital for Physical Rehabilitation	Patient Transfer Agreement	8028 - Patient Logistics	10/18/2008 12:00:00 AM	10/16/2011 12:00:00 AM	Pediatric Patient Transfer Agreement
2002.2695E	Erlanger Health System	Roane Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	9/28/2008 12:00:00 AM	9/27/2011 12:00:00 AM	Patient Transfer Agreement
2002.2696E	Erlanger Health System	Rhea County Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	9/28/2008 12:00:00 AM	9/27/2011 12:00:00 AM	Patient Transfer Agreement
2002.2697C	Erlanger Health System	Redmond Regional Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	1/17/2012 12:00:00 AM	1/16/2013 12:00:00 AM	Patient Transfer Agreement
2002.2699C	Erlanger Health System	Murray Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	12/5/2011 12:00:00 AM	12/4/2012 12:00:00 AM	Patient Transfer Agreement
2002.2700C	Erlanger Health System	Medical Center of Manchester	Patient Transfer Agreement	8028 - Patient Logistics	4/19/2012 12:00:00 AM	4/18/2013 12:00:00 AM	Patient Transfer Agreement
2002.2701C	Erlanger Health System	Livingston Regional Hospital	Patient Transfer Agreement	8028 - Patient Logistics	12/5/2011 12:00:00 AM	12/4/2012 12:00:00 AM	Patient Transfer Agreement
2002.2702C	Erlanger Health System	Lincoln County Health System	Patient Transfer Agreement	8028 - Patient Logistics	11/30/2011 12:00:00 AM	11/29/2012 12:00:00 AM	Patient Transfer Agreement
2002.2703C	Erlanger Health System	Hamilton Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	11/22/2011 12:00:00 AM	11/21/2012 12:00:00 AM	Patient Transfer
2002.2704C	Erlanger Health System	Fannin Regional Hospital	Patient Transfer Agreement	8028 - Patient Logistics	6/18/2012 12:00:00 AM	6/17/2013 12:00:00 AM	Patient Transfer
2002.2705E	Erlanger Health System	Southern Tennessee Medical Center d/b/a Emerald Hodgson Hospital	Patient Transfer Agreement	8028 - Patient Logistics	10/17/2008 12:00:00 AM	10/16/2011 12:00:00 AM	Patient Transfer Agreement
2002.2706C	Erlanger Health System	Cumberland Medical Center, Inc	Patient Transfer Agreement	8028 - Patient Logistics	12/2/2011 12:00:00 AM	12/1/2012 12:00:00 AM	Patient Transfer
2002.2707C	Erlanger Health System	Copper Basin Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	12/1/2011 12:00:00 AM	11/30/2012 12:00:00 AM	Patient Transfer Agreement
2002.2717E	Erlanger Health System	Cherokee Medical Center f/k/a Baptist Cherokee Hospital	Patient Transfer Agreement	8028 - Patient Logistics	9/28/2008 12:00:00 AM	9/27/2011 12:00:00 AM	Patient Transfer Agreement
2002.2739E	Erlanger Health System	Athens Regional Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	9/29/2008 12:00:00 AM	9/27/2011 12:00:00 AM	Patient Transfer Agreement
	Erlanger	Chatuge	Patient		12/1/2011	11/30/2012	

2002.2746C	Health System	Regional Hospital	Transfer Agreement	8028 - Patient Logistics	12:00:00 AM	12:00:00 AM	Patient Transfer Agreement
2002.2777C	Erlanger Health System	Sparta Hospital Corporation d/b/a White County Hospital, LLC	Patient Transfer Agreement	8028 - Patient Logistics	4/25/2012 12:00:00 AM	4/24/2013 12:00:00 AM	Patient Transfer Agreement
2002.2788C	Erlanger Health System	Chattanooga Imaging	Patient Transfer Agreement	8028 - Patient Logistics	12/30/2010 12:00:00 AM	12/29/2012 12:00:00 AM	Patient Transfer Agreement
2002.2830C	Erlanger Health System	Gordon Hospital	Patient Transfer Agreement	8028 - Patient Logistics	7/1/2012 12:00:00 AM	6/30/2013 12:00:00 AM	Patient Transfer Agreement
2002.2854E	Erlanger Health System	Chattanooga Rehabilitation Hospital	Patient Transfer Agreement	8028 - Patient Logistics	2/3/2009 12:00:00 AM	2/2/2012 12:00:00 AM	Patient Transfer Agreement
2002.2891E	Erlanger Health System	DeKalb Regional Medical Center, f/k/a Baptist DeKalb Hospital	Patient Transfer Agreement	8028 - Patient Logistics	9/28/2008 12:00:00 AM	9/27/2011 12:00:00 AM	Patient Transfer Agreement
2002.3545C	Erlanger Health System	National Healthcare of Cleveland, Inc. d/b/a Skyridge Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	1/10/2007 12:00:00 AM	10/6/2012 12:00:00 AM	Patient Transfer Agreement
2002.3609E	Erlanger Health System	Atrium Surgery Center	Patient Transfer Agreement	8028 - Patient Logistics	7/28/2009 12:00:00 AM	6/27/2012 12:00:00 AM	Patient Transfer Agreement
2002.3688C	Erlanger Health System	Burks GenCore Co., Inc. d/b/a The Genesis Group	IT: Non Clinical Software	7149 - LifeForce Communications	12/21/2007 12:00:00 AM	12/20/2012 12:00:00 AM	GenWatch 3 FEU Hospital Disaster Recovery Monitor System Software
2002.3815C	Erlanger Health System	Memorial Mission Surgery Center	Patient Transfer Agreement	8028 - Patient Logistics	12/14/2011 12:00:00 AM	12/13/2012 12:00:00 AM	Patient Transfer Agreement
2002.4049C	Erlanger Health System	Vanderbilt University Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	7/1/2008 12:00:00 AM	6/30/2013 12:00:00 AM	Burn Patient Transfer
2002.4187E	Erlanger Health System	Doctors Hospital of Augusta, LLC d/b/a Doctors Hospital	Patient Transfer Agreement	8028 - Patient Logistics	2/23/2009 12:00:00 AM	2/22/2011 12:00:00 AM	Patient Transfer
2002.4215E	Erlanger Health System	Memorial Health Care System, Inc., a Kentucky non-profit corporation, d/b/a Memorial Hospital (Memorial On Call)	Patient Transfer Agreement	8028 - Patient Logistics	3/10/2009 12:00:00 AM	3/9/2012 12:00:00 AM	Patient Transfer: Bledsoe
2002.4635E	Erlanger Health System	Hutcheson Medical Center, Inc. d/b/a Hutcheson Medical Center	Patient Transfer Agreement	8028 - Patient Logistics	5/13/2010 12:00:00 AM	5/12/2011 12:00:00 AM	Patient Transfer: Percutaneous Cardiac Intervention
2002.4833C	Erlanger Health System	Eye Surgery Center of Chattanooga	Patient Transfer Agreement	8028 - Patient Logistics	9/15/2010 12:00:00 AM	9/14/2012 12:00:00 AM	Patient Transfer
2002.4857C	Erlanger Health System	Life Care Center of East Ridge	Patient Transfer Agreement	8028 - Patient Logistics	11/10/2010 12:00:00 AM	11/9/2012 12:00:00 AM	Patient Transfer
2002.4874C	Erlanger Health System	Life Care Center of Hixson	Patient Transfer Agreement	8028 - Patient Logistics	1/1/2011 12:00:00 AM	12/31/2012 12:00:00 AM	Patient Transfer
2002.5425C	Erlanger Health System	Renaissance Surgery Center	Patient Transfer Agreement	8028 - Patient Logistics	2/16/2012 12:00:00 AM	2/15/2013 12:00:00 AM	Patient Transfer Agreement

Board for Licensing Health Care Facilities

State of Tennessee

0000000140

No. of Beds 0788

DEPARTMENT OF HEALTH

This is to certify, that a license is hereby granted by the State Department of Health to

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY *to conduct and maintain a*

Hospital ERLANGER MEDICAL CENTER

Located at 975 EAST THIRD STREET, CHATTANOOGA

County of HAMILTON *, Tennessee.*

This license shall expire JUNE 04 , 2014 , *and is subject to the provisions of Chapter 11, Tennessee Code Annotated. This license shall not be assignable or transferable, and shall be subject to revocation at any time by the State Department of Health, for failure to comply with the laws of the State of Tennessee or the rules and regulations of the State Department of Health issued thereunder.*

In Witness Whereof, we have hereunto set our hand and seal of the State this 4TH *day of* JUNE , 2013 .

In the Distinct Category(ies) of:
GENERAL HOSPITAL
PEDIATRIC CPRC HOSPITAL
TRAUMA CENTER LEVEL 1

By Vincent J. Davis, MPH
DIRECTOR, DIVISION OF HEALTH CARE FACILITIES

By [signature]
COMMISSIONER

DCF011

A – 29

The Joint Commission

April 16, 2012

Re: # 7809
CCN: #441306
Program: Critical Access Hospital
Accreditation Expiration Date: December 28, 2014

Charlesetta Woodard-Thompson
Chief Executive Officer
Erlanger Health System
975 East Third Street
Chattanooga, Tennessee 37403

Dear Ms. Woodard-Thompson:

This letter confirms that your September 26, 2011 - September 27, 2011 unannounced full resurvey was conducted for the purposes of assessing compliance with the Medicare conditions for critical access hospitals through The Joint Commission's deemed status survey process.

Based upon the submission of your evidence of standards compliance on March 20, 2012 and the successful on-site Medicare Deficiency Follow-up event conducted on November 11, 2011, the areas of deficiency listed below have been removed. The Joint Commission is granting your organization an accreditation decision of Accredited with an effective date of September 28, 2011. We congratulate you on your effective resolution of these deficiencies.

§482.12 Condition of Participation: Governing Body
§482.13 Condition of Participation: Patient's Rights
§482.23 Condition of Participation: Nursing Services
§482.24 Condition of Participation: Medical Record Services
§482.25 Condition of Participation: Pharmaceutical Services
§482.26 Condition of Participation: Radiologic Services
§482.41 Condition of Participation: Physical Environment
§482.42 Condition of Participation: Infection Control
§482.51 Condition of Participation: Surgical Services
§485.623 Physical Plant and Environment

The Joint Commission is also recommending your organization for continued Medicare certification effective September 28, 2011. Please note that the Centers for Medicare and Medicaid Services (CMS) Regional Office (RO) makes the final determination regarding your Medicare participation and the effective date of participation in accordance with the regulations at 42 CFR 489.13. Your organization is encouraged to share a copy of this Medicare recommendation letter with your State Survey Agency.

This recommendation also applies to the following location(s):

Academe Internal Medicine and Endocrinology

Headquarters
One Renaissance Boulevard
Oakbrook Terrace, IL 60181
630 792 5000 Voice

The Joint Commission

979 E. Third Street, Suite B-601, Chattanooga, TN, 37403

Academic Gastroenterology
979 East Third Street, Suite C-825, Chattanooga, TN, 37403

Academic Urologist at Erlanger
979 East Third Street, Suite C - 535, Chattanooga, TN, 37403

Alton Park (Southside) Community Health Center
100 East 37th Street, Chattanooga, TN, 37410

Developmental Pediatrics
1101 Carter Street, Chattanooga, TN, 37403

Dodson Avenue Community Health Center
1200 Dodson Avenue, Chattanooga, TN, 37406

Erlanger Academic Urologists
1755 Gunbarrel Road, Suite 209, Chattanooga, TN, 37421

Erlanger at Alexian
579 Alexian Way, Suite 401, Signal Mountain, TN, 37377

Erlanger at Volkswagon Drive Wellness Center
7380 Volkswagon Drive, Suite 110, Chattanooga, TN, 37416

Erlanger Bledsoe Hospital
128 Wheelertown Road, Pikeville, TN, 37367

Erlanger Bledsoe Internal & Pediatric Medicine
136 Wheelertown Avenue, Pikeville, TN, 37367

Erlanger East Comprehensive Care
1755 Gunbarrel Road, Suite 106, Chattanooga, TN, 37421

Erlanger East Family Medicine
1755 Gunbarrel Road, Suite 200, Chattanooga, TN, 37421

Erlanger Health System - East Campus
1751 Gunbarrel Road, Chattanooga, TN, 37421

Erlanger Health System - Main Site
d/b/a Erlanger Health System - Baroness Campus
975 East Third Street, Chattanooga, TN, 37403

The Joint Commission

Erlanger Health System - North Campus
632 Morrison Springs Road, Chattanooga, TN, 37415

Erlanger Hypertension Management Center
979 East Third Street, Suite B601, Chattanooga, TN, 37403

Erlanger Neurology Group
979 East Third Street, Suite 1202, Chattanooga, TN, 37403

Erlanger North Family & Multi-Speciality Practice
632 Morrison Springs Road, Chattanooga, TN, 37415

Erlanger Ooltewah Family Practice
9309 Apison Pike, Ooltewah, TN, 37363

Erlanger South Family Practice
5195 Battlefield Parkway, Ringgold, GA, 30736

Erlanger Specialty Care for OB and Peds
1504 North Thornton Avenue, Suite 104, Dalton, GA, 30720

Kidney Transplant OutPatient Clinic
975 East Third Street, Suite 1105, Chattanooga, TN, 37403

Kidney Transplant Outpatient Clinic
975 East Third Street, Suite 1002, Chattanooga, TN, 37403

Life Style Center - Cardiac Rehab
325 Market Street, Chattanooga, TN, 37401

Lifestyle Hypertension Center and Surgical Weight Loss
325 Market Street, Suite 200, Chattanooga, TN, 37401

Southeast Regional Stroke Center
979 East Third Street, Suite C830, Chattanooga, TN, 37403

Southern Orthopaedic Trauma Surgeons
979 East Third Street Suite A-450, Chattanooga, TN, 37403

TCT Cardiology/GI/Genetics
910 Blackford Street - 3rd Fl Massoud, Chattanooga, TN, 37403

TCT Children's Subspecialty Center
2700 West Side Drive, Cleveland, TN, 37312

The Joint Commission

TCT Dermatology
979 East Third Street, - 4th fl Med Mall, Chattanooga, TN, 37403

TCT Endocrine
910 Blackford, 1st fl Massoud, Chattanooga, TN, 37403

TCT Hematology/Oncology
910 Blackford Street - 5th fl Massoud Bl, Chattanooga, TN, 37403

TCT Nephrology and Urology
979 East Third St. Med. Mall, Ste C 735, Chattanooga, TN, 37403

University Health Obstetrics & Gynecology
979 East Third Street, Suite C-725, Chattanooga, TN, 37403

University Health Services
1100 East Third Street, Suite 102, Chattanooga, TN, 37403

University Medical Assoc
960 East Third Street, Chattanooga, TN, 37403

University Pediatrics
910 Blackford Street - Gr floor Massoud, Chattanooga, TN, 37403

University Pulmology and Rheumatology Associates
979 East Third Street, Suite B-805, Chattanooga, TN, 37403

UT Erlanger Cardiology
975 East Third Street, Suite C-520, Chattanooga, TN, 37403

UT Erlanger Cardiology East
1614 Gunbarrel Road, Ste 101, Chattanooga, TN, 37421

UT Erlanger Lookout Mtn Primary Care
100 McFarland Road, Lookout Mountain, GA, 30750

UT Erlanger Primary and Athletic Health
1200 Pineville Road, Chattanooga, TN, 37405

UT Family Practice
1100 East Third Street, Chattanooga, TN, 37403

UT-Erlanger Women's Health Specialists
3309 Cummings Hwy, Suite A, Chattanooga, TN, 37419

The Joint Commission

Workforce at UT Family Practice
1100 East 3rd Street, Chattanooga, TN, 37403

We direct your attention to some important Joint Commission policies. First, your Medicare report is publicly accessible as required by the Joint Commission's agreement with the Centers for Medicare and Medicaid Services. Second, Joint Commission policy requires that you inform us of any changes in the name or ownership of your organization, or health care services you provide.

Sincerely,

Ann Scott Blouin RN, PhD

Ann Scott Blouin, RN, Ph.D.
Executive Vice President
Accreditation and Certification Operations

cc: CMS/Central Office/Survey & Certification Group/Division of Acute Care Services
CMS/Regional Office 4 /Survey and Certification Staff

Headquarters
One Renaissance Boulevard
Oakbrook Terrace, IL 60181
630 792 5000 Voice

PRINTED: 08/20/2013
FORM APPROVED
OMB NO. 0938-0391

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:	(X2) MULTIPLE CONSTRUCTION	(X3) DATE SURVEY COMPLETED
	440104	A. BUILDING _____ B. WING _____	C 06/14/2013

NAME OF PROVIDER OR SUPPLIER	STREET ADDRESS, CITY, STATE, ZIP CODE
ERLANGER MEDICAL CENTER	975 E 3RD ST CHATTANOOGA, TN 37403

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE
A 145	482.13(c)(3) PATIENT RIGHTS: FREE FROM ABUSE/HARASSMENT The patient has the right to be free from all forms of abuse or harassment. This STANDARD is not met as evidenced by: Based on review of facility policy, review of staff education literature, medical record review, review of facility investigation documentation, and interview, the facility failed to implement the abuse policy for three patients (#1, #2, and #3) of seven sampled patients. The findings included: Review of facility policy Number: 8316.1055 titled, "Abuse Reporting" most recently revised in June 2005, revealed, "...When...staff has reason to suspect that the person has been the subject of abuse/neglect or exploitation, the appropriate authorities will be notified...If a hospital admitted patient demonstrates any of the criteria for abuse, Resource Management or House Supervisor/Administrative Representative...should be contacted for appropriate referral/notification...Staff Education...Issues of abuse will be presented at orientation...All employees will receive education...to identify and procedures for handling the victims of abuse and/or neglect." Review of facility policy Number:8316.074 titled, "Occurrence Reporting; Serious Safety; and Sentinel Events" most recently revised in November 2010, revealed; "...outlines the procedure for identifying, reporting, responding to, and analysis of patient or visitor-related events, including Serious Safety and Sentinel	A 145	Plan of Correction: 1. What corrective action(s) will be accomplished for those residents/patients found to have been affected by the deficient practice? Mandatory education of all staff to prevent future similar incidents involving our patients. 2. How will you identify other residents/patients having the potential to be affected by the same deficient practice and what corrective action will be taken? All patients are considered to be at risk for the deficient practice therefore, the following changes will be completed. ° A revision of the Employee Code of Conduct agreement to include abuse is in process pending Board approval. ° Revise "Patient Assault and Abuse by Healthcare Professionals" employee education module (HLC) to include reporting requirements and consequences for not reporting witnessed or suspected incidents of abuse/neglect with reference to all applicable policies.	7/28/2013 7/28/2013 7/28/2013

ABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE | TITLE | (X6) DATE

ny deficiency statement ending with an asterisk (*) denotes a deficiency which the institution may be excused from correcting providing it is determined that ther safeguards provide sufficient protection to the patients. (See instructions.) Except for nursing homes, the findings stated above are disclosable 90 days llowing the date of survey whether or not a plan of correction is provided. For nursing homes, the above findings and plans of correction are disclosable 14 ays following the date these documents are made available to the facility. If deficiencies are cited, an approved plan of correction is requisite to continued rogram participation.

PRINTED: 06/25/2013
FORM APPROVED
OMB NO. 0938-0391

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:	(X2) MULTIPLE CONSTRUCTION	(X3) DATE SURVEY COMPLETED
	440104	A. BUILDING _____ B. WING _____	C 06/14/2013

NAME OF PROVIDER OR SUPPLIER	STREET ADDRESS, CITY, STATE, ZIP CODE
ERLANGER MEDICAL CENTER	975 E 3RD ST CHATTANOOGA, TN 37403

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE
A 145	Continued From page 1 Events, and the completion of an occurrence or incident report...The following is a non-inclusive list of sentinel events: Abuse...Occurrences will be reported by the (Hospital) employee or physician most closely involved in the situation (or who witnessed the incident) as soon as possible following the event...As part of the Hospital's non-punitive environment...staff may maintain anonymity unless the event is the result of...events involving suspected patient abuse of any kind...Documentation in the medical record should include...brief, objective statement of the facts relating to the occurrence..." Review of staff abuse education literature provided by the facility on June 12, 2013, revealed,"...This course will help you fulfill your legal and ethical duty to protect and serve patients. You will learn about: Patient abuse...after completing this course, you should be able to...Define types of abuse..Identify warning signs of abused patients and abusive providers...Protecting Patients: Best Practices...Report suspected abuse immediately..." Review of a facility Investigation Report (Patient #1) dated February 25, 2013, revealed, "...Each incident involves the same nurse...Date of Occurrence: 12-20-12...Information was made known on 2/14/13...nurse was witnessed penetrating the patient's rectum at least 7 times before determining that the patient did not have an impaction." Review of a facility Investigation Report (Patient #2) dated February 25, 2013, revealed, "...Date of Occurrence: 12/26/12...The nurse yelled at the	A 145	3. What measures will be put into place or what systemic changes will you make to ensure that the deficient practice does not occur? ° A revision of the Employee Code of Conduct agreement to include abuse is in process pending Board approval. — 7/28/2013 ° Modify the "Patient Assault and Abuse by Healthcare Professionals" employee education module to include reporting requirements and consequences for not reporting witnessed or suspected incidents of abuse/neglect with reference to all applicable policies. — 7/28/2013 ° Mandatory education of all staff system-wide. — 7/28/2013 4. How the corrective actions(s) will be monitored and the person(s) responsible for monitoring to ensure the deficient practice will not recur? ° HLC "Patient Assault and Abuse by Healthcare Professionals" education will be monitored for a completion rate of 90% of all healthcare workers by the corrective action plan due date. — 7/28/2013 ° The Abuse/Neglect Team will be responsible for the monitoring reporting witnessed or suspected incidents of abuse/neglect. — Ongoing	

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DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:	(X2) MULTIPLE CONSTRUCTION	(X3) DATE SURVEY COMPLETED
	440104	A. BUILDING _____ B. WING _____	C 06/14/2013

NAME OF PROVIDER OR SUPPLIER	STREET ADDRESS, CITY, STATE, ZIP CODE
ERLANGER MEDICAL CENTER	975 E 3RD ST CHATTANOOGA, TN 37403

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE
A 146	Continued From page 2 patient...and pulled the curtain to the room closed. A staff member heard this and turned on the monitor for that bed and watched the nurse grab the patient by the jaw and shove the NG (naso-gastric) tube back down...nostril in a very forceful and abusive manner." Review of a facility Investigation Report (Patient #3) dated February 26, 2013, revealed, "...Date of Occurrence: 1/11/13...(Nurse B) was observed pushing on the patient's abdomen and inserting a finger into the patient's rectum to remove feces. Nurse B made comments about the patient's lack of sphincter tone and the color and consistency of the patient's feces..." Patient #1 was admitted to the facility on December 19, 2012, with diagnoses including Dementia. Medical record review of a Discharge Summary dated December 24, 2012, revealed, "...stable for discharge..." Medical record review revealed no documentation regarding abuse. Patient #2 was admitted to the facility on December 23, 2012, with diagnoses including Pneumonia. Medical record review of a Discharge Summary dated January 2, 2013, revealed, "...stable for discharge to Nursing Home..." Medical record review revealed no documentation regarding abuse. Patient #3 was admitted to the facility on	A 146		

PRINTED: 06/20/2013
DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES
FORM APPROVED
OMB NO. 0938-0391

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:	(X2) MULTIPLE CONSTRUCTION	(X3) DATE SURVEY COMPLETED
	440104	A. BUILDING _____ B. WING _____	C 06/14/2013

NAME OF PROVIDER OR SUPPLIER	STREET ADDRESS, CITY, STATE, ZIP CODE
ERLANGER MEDICAL CENTER	975 E 3RD ST CHATTANOOGA, TN 37403

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE
A 145	Continued From page 3 December 24, 2012, with diagnoses including Pulmonary Embolism. Medical record review of a nurse's note dated January 10, 2013, at 11:41 p.m., revealed, "...pronounced dead..." Medical record review revealed no documentation regarding abuse. Interview with the Clincal Outcomes Coordinator on June 12, 2013, at 11:00 a.m., in an administrative conference room, revealed the facility was unaware of the allegations regarding Patients #1 and #2 until the allegations regarding Patient #3 were reported. Interviews with the Risk Manager on June 12, 2013, at approximately 11:10 a.m. and 11:40 a.m., in an administrative conference room, revealed staff failed to report suspected abuse immediately and document in the medical record. Continued interview confirmed the facility failed to implement facility policy for Patients #1, #2, and #3. C/O: #31264	A 145		

A – 38

PRINTED: 08/14/2013
FORM APPROVED

Division of Health Care Facilities

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:	(X2) MULTIPLE CONSTRUCTION	(X3) DATE SURVEY COMPLETED
	TN#531140	A. BUILDING: _____ B. WING _____	C 06/14/2013

NAME OF PROVIDER OR SUPPLIER	STREET ADDRESS, CITY, STATE, ZIP CODE
ERLANGER MEDICAL CENTER	975 E 3RD ST CHATTANOOGA, TN 37403

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE
H 001	1200-8-1 Initial During a complaint investigation at Erlanger Medical Center on June 14, 2013, no deficiencies were cited under 1200-8-1, Standards for Hospitals. C/O: #31062, #31264, #31703	H 001		

CURRICULUM VITAE

NAME: Pradeep Kumar Jacob, M.D., MBA

EDUCATION:

Undergraduate:

University of Alabama at Birmingham,
June 1981 to September 1985.
B.S. Biology – September 1985

Graduate / Professional School:

University of Alabama School of Medicine,
September 1986 to June 1990
M.D. Degree – June 1990

University of Tennessee, Knoxville, Tennessee.
January 2005 to December 2005
Masters in Business Administration (MBA) – December 2005

Internship:

Transitional Internship, Lloyd Noland Hospital,
Fairfield, Alabama
June 1990 to May 1991

Residency:

Radiology Residency, Allegheny University of the Health Sciences, Philadelphia, Pennsylvania
July 1994 to June 1997

Nuclear Medicine Residency, University of Arizona Health Sciences Center, Tucson, Arizona.
July 1991 to June 1993

Postgraduate Training:

Neuroradiology Fellowship, University of Washington,
Seattle, Washington
July 1997 to June 1999

Research Fellowship, National Institute of Neurological Disorder and Stroke, Bethesda, Maryland
July 1993 to June 1994

HONORS/AWARDS:

MILITARY SERVICE:

BOARD CERTIFICATION:

American Board of Radiology, Certificate of Added Qualification (CAQ), Neuroradiology, issued November 6, 2000

American Board of Radiology, issued June 11, 1997

American Board of Nuclear Medicine, issued December 7, 1993. Recertified by examination, 2003

National Board of Medical Examiners, issued June 1, 1991

LICENSURE:

M.D. – Tennessee,	- June 19, 2001 (Active)
M.D. – California,	- March 17, 2000 (Active)
M.D. – Washington,	- July 14, 1997 (Active)
M.D. – Pennsylvania,	- June 26, 1994 (Inactive)
M.D. – Arizona,	- January 1, 1992 (Inactive)
M.D. – Alabama,	- June 26, 1991 (Inactive)

SOCIETY MEMBERSHIPS:

Society of Nuclear Medicine
American Society of Neuroradiology, Senior Member
American Society of Spine Radiology
Academy of Molecular Imaging
American College of Physician Executives

UNIVERSITY AND COLLEGE APPOINTMENTS:

Assistant Professor, Graduate School of Medicine
University of Tennessee Medical Center, Knoxville, Tennessee
July 2001 to present

Acting Instructor, Department of Radiology, Section of Neuroradiology
University of Washington School of Medicine, Seattle, WA
July 1998 to June 1999

HOSPITAL/CLINICAL APPOINTMENTS:

University of Tennessee Medical Center, Knoxville, Tennessee.
Active Staff Privileges
July 2001 to present

Wellmont Hawkins County Memorial Hospital, Rogersville, Tennessee
Courtesy Staff Privileges
July 2007 to present

Redding Medical Center, Redding, California
Inactive
July 2000 to June 2001

Mercy Medical Center, Redding, California
Inactive
June 2000 to June 2001

Lady of Lourdes Hospital, Pasco, Washington
Inactive
August 1999 to May 2000

Kennewick General Hospital, Kennewick, Washington
Inactive
August 1999 to May 2000

PRACTICE/PROFESSIONAL EXPERIENCE:

Current Position: Staff Radiologist, RadCare of TN – Erlanger Health System, Chattanooga, Tennessee.

March 2008 to present.

Previous Positions: Assistant Professor, Department of Radiology, Section of Neuroradiology and Nuclear Medicine.
University of Tennessee Medical Center, Knoxville, Tennessee.
July 2001 to February 2008

Neuroradiologist, Regional Radiological Associates, Redding, California.
June 2000 – June 2001

Neuroradiologist, Tri-City Radiology
Kennewick, Washington
August 1999 to May 2000

OTHER ACADEMIC APPOINTMENTS:

PRIVATE SECTOR APPOINTMENTS:
FOR THOSE WITH RELEVANT EXPERIENCE

TEACHING EXPERIENCE:

VISITING PROFESSORSHIPS AND INVITED LECTURES:

"Cerebrovascular Imaging." 27th Annual Family Medicine Update and Review. University of Tennessee Graduate School of Medicine.
Park Vist Hotel, Gatlinburg, Tennessee
April 29, 2004.

"Neuroimaging Update." Presented at Lakeshore Hospital, Knoxville, Tennessee
May 7, 2004

EDITORIAL APPOINTMENTS:

COMMITTEES AND OFFICES HELD:

University of Tennessee Medical Center, Knoxville, Tennessee
Brain and Spine Institute Steering Committee, September 2003 to present
Diagnostic Radiology Residency Committee, June 2004 to present

Association of University Radiologists, Knoxville, Tennessee
Finance Committee, June 2003 to July 2005
Chief Financial Officer, August 2004 to July 2005
Board of Directors, August 2004 to July 2005

OTHER PROFESSIONAL AFFILIATIONS AND ACTIVITIES:

FELLOWS/GRADUATE STUDENTS TRAINED:
NAME, DEGREE, DATES, DEGREE AWARDED, TITLE OF THESIS OR DISERTATION.

RESEARCH AND OTHER EXTERNAL SUPPORT:
AGENCY NAME, TITLE OF PROJECT OR PROGRAM, $ AMOUNT, DATES.

BOOKS AND BOOK CHAPTERS:

Carlson, Eric R, DMD, MD and Robert A Ord, DDS, MD. Textbook and Color Atlas of Salivary Gland Pathology: Diagnosis and Management. "Diagnostic Imaging of Salivary Gland Pathology" Chapter 2 by Pradeep K Jacob, MD, MBA. Wiley-Blackwell, 2008.

PEER-REVIEWED JOURNAL ARTICLES:

Roll JD, Urban MA, Larson TC 3rd, Gailloud p, Jacob P, Harnsberger HR. Bilateral aberrant internal carotid arteries with bilateral persistent stapedial

arteries and bilateral duplicated internal carotid arteries. *American Journal of Neuroradiology* 24(4): 762-765(2003).

Tedeschi G, Bertolino A, Campbell G, Barnett AS, Duyn JH, Jacob PK, Moonen CT, Alger JR, Dichiro G. Reproducibility of proton MR spectroscopic imaging findings. American journal of Neuroradiology 17(7): 1871-79. (1996).

Jacob P, McNeill G, Witte M, Witte C, Williams W. Lymphangioscintigraphic Patterns in Angiodysplasia Syndrome. *Progress in Lymphology XIV, Proceedings of the 14th International Congress of Lymphology*. Witte MH and Witte CL (eds.), pp286-293 (1994). The International Society of Lymphology, Zurich, Switzerland and Tucson, Arizona.

Hoh C, Glaspy J, Hawkins R, Yao W, Harris G, Flores J, Jacob P, Maddahi J, Phelps M. Utility of 18FDG Whole Body PET in the Staging of Hodgkins Disease and Lymphoma. *Journal of Nuclear Medicine* 35(5):221-222 (1994).

Jacob P, Williams W. First Impressions: Unusual Presentation of a Hiatal Hernia on Meckel's Scintigraphy. *Journal of Nuclear Medicine* 35(5):792 (1994).

El Gammal T, Brooks B, Harbour R, Jacob P, Duval E, Kline L. MRI of the Displaced and Distorted Optic Chiasm and adjacent Visual Pathways. *Neuroradiology* 33(suppl):290-292 (1991).

El Gammal T, Brooks B, Jacob P, Duval E, Kline L, Harbour R. Gadolinium Enhanced MRI of the Intracranial Visual Pathways. *Neuroradiology* 33(suppl):293-295 (1991).

El Gammal T, Brooks B, Harbour R, Kline L, Jacob P. MRI of Uncommon Congenital and Vascular Lesions of the Intracranial Visual pathways. *Neuroradiology* 32:488-491 (1990).

ABSTRACTS:

Christian B, Kerzeder D, Jacob P. Cervical spine evaluation after blunt trauma: Are Flexion/Extension radiographs needed to clear the cervical

spine when multi-detector row CT scan is normal? The American Society of Spine Radiology Annual Symposium, February 23, 2007. Abstract syllabus Volume I:266-269. Oral presentation by Christian B. (2007).

Tedeschi G, Bertolino A, Righini A, Jacob P, Duyn J, Moonen C, Alger J, Di Chiro G. Regional Pattern Recognition in Proton MR Spectroscopic Images of Normal Human Brain. *Proceedings of The Society of Magnetic Resonance Imaging* 1:564 (1994).

Jacob P, McNeill G, Witte C, Williams W. Lymphangio-scintigraphic Patterns in Klippel-Trenaunay Syndrome. *XIVth International Congress of Lymphology Abstract Book*: 58 (1993).

Jacob P, Williams P. Nitroxyl Spin Labeled Glucose for MRI. *Alabama Journal Medical Science* 25(3):309 (1988).

CURRENT PROJECTS:

"Evaluation of a PET brain insert to operate inside a 3T MR imager". David W. Townsend, Ph.D. Principal Investigator. Collaborating investigators, Gary T. Smith, MD, R. Kent Hutson, MD, Misty Long, RT (R) (N), Claude Nahmias, PhD, Pradeep K Jacob, MD, MBA. Siemens Molecular Imaging, IRB2590, 11/14/06 to 11/13/07.

"A Retrospective Review of the Utilization of FDG PET and PET/CT Imaging in Merkel Cell Carcinoma of the Head and Neck". David Gentry, MD, Pradeep K Jacob, MD, MBA, Eric Carlson, DMD, MD. Abstract submitted toThe Academy of Molecular Imaging, 2007. (work in progress for publication).

"Preoperative Staging and Assistance in Clinical Decision Making in Oral/Head and Neck Cancer", Eric Carlson, DMD, MD-Principal Investigator and Pradeep K Jacob, MD, MBA collaborating investigator. (work in progress).

"Cervical spine evaluation after blunt trauma: Are Flexion/Extension radiographs needed to clear the cervical spine when multi-detector row CT scan is normal?" Bret Christian, MD, Dan Kirzeder, MD, and Pradeep K Jacob, MD, MBA. (work in progress for publication).

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"MRI study in speakers with and without repaired cleft palate." Seunghee Ha, Ph.D. Prinicipal Investigator. Pradeep K. Jacob, MD, MBA, collaborating investigator. University of Tennessee, Department of Audiology and Speech Pathology. (work in progress).

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RHS 8-7

TENNESSEE DEPARTMENT OF ENVIRONMENT AND CONSERVATION
DIVISION OF RADIOLOGICAL HEALTH
3RD FLOOR, L & C ANNEX, 401 CHURCH STREET, NASHVILLE, TN 37243

RADIOACTIVE MATERIAL LICENSE

Amendment 101

Pursuant to Tennessee Department of Environment and Conservation Regulations, and in reliance on statements and representations heretofore made by the licensee, a license is hereby issued authorizing the licensee to receive, acquire, possess and transfer radioactive material listed below; and to use such radioactive material for the purpose(s) and at the place(s) designated below. This license is subject to all applicable rules and regulations of the Tennessee Department of Environment and Conservation and orders of the Division of Radiological Health, now or hereafter in effect and to any conditions specified below.

LICENSEE	3. License number
1. Name Erlanger Medical Center	R-33008-B17 amended in its entirety
	4. Expiration date February 28, 2017
2. Address 975 East Third Street Chattanooga, Tennessee 37403	5. File no. R-33008

6. Radioactive Material (Element and Mass Number)	8. Chemical and/or physical form	9. Maximum Radioactivity and/or quantity of material which licensee may possess at any one time.
See Supplementary Sheets		

10. Authorized Use

See Supplementary Sheets

CONDITIONS

11. Unless otherwise specified, the authorized place of use is the licensee's address stated in Item 2 above.

See Supplementary Sheets

For the Commissioner
Tennessee Department of Environment and Conservation

By: Sasi Krishnasarma
Division of Radiological Health
Sasi Krishnasarma
Health Physicist

Date of Issuance September 26, 2012

RDA 2902

RHS 8-7A

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TENNESSEE DEPARTMENT OF ENVIRONMENT AND CONSERVATION
DIVISION OF RADIOLOGICAL HEALTH
3RD FLOOR, L&C ANNEX, 401 CHURCH STREET, NASHVILLE, TENNESSEE 37243

RADIOACTIVE MATERIAL LICENSE

Amendment 101

Supplementary Sheet

Page 2 of 5 Pages

License Number R-33008-B17

6. Radioactive Material (Element and Mass Number)	8. Chemical and/or Physical Form	9. Maximum Radioactivity and/or Quantity of Material Which Licensee May Possess at Any One Time
A. Any radioactive material as permitted in Rule 0400-20-07-.38 of "State Regulations for Protection Against Radiation."	A. Any	A. As necessary for the uses authorized in Item 10.A.
B. Any radioactive material as permitted in Rule 0400-20-07-.40 of "State Regulations for Protection Against Radiation."	B. Any, except generators	B. As necessary for the uses authorized in Item 10.B.
C. Iodine 125/131	C. Any	C. 300 microcuries
D. Any radioactive material as permitted in Rule 0400-20-07-.44, except Iodine 131,of "State Regulations for Protection Against Radiation."	D. Any unsealed radioactive material as permitted in Rule 0400-20-07-.44 of "State Regulations for Protection Against Radiation."	D. 400 millicuries
E. Iodine 131	E. Sodium Iodide capsules as permitted in Rule 0400-20-07-.44 of "State Regulations for Protection Against Radiation."	E. 350 millicuries
F. Cesium 137	F. Sealed Source (New England Nuclear Model NER-570)	F. One (1) source of 103.5 millicuries

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TENNESSEE DEPARTMENT OF ENVIRONMENT AND CONSERVATION
DIVISION OF RADIOLOGICAL HEALTH
3RD FLOOR, L&C ANNEX, 401 CHURCH STREET, NASHVILLE, TENNESSEE 37243

RADIOACTIVE MATERIAL LICENSE

Amendment 101

Supplementary Sheet

Page 3 of 5 Pages

License Number R-33008-B17

G. Any radioactive material	G. As specified in "State Regulations for Protection Against Radiation" 0400-20-07--.31.	H. As specified in "State Regulations for Protection Against Radiation" 0400-20-07-.31.

10. Authorized Uses

A. Uptake, dilution, excretion studies for which a written directive is not required. (Rule 0400-20-07-.38 of "State Regulations for Protection Against Radiation.")

B. Imaging and localization studies for which a written directive is not required. (Rule 0400-20-07-.40 of "State Regulations for Protection Against Radiation.")

C. In vitro clinical or laboratory testing only.

D. Diagnostic and therapeutic medical use for which a written directive is required, except oral administrations of sodium iodine I-131. (Rule 0400-20-07-.44 of "State Regulations for Protection Against Radiation.")

E. Diagnostic and therapeutic medical use for which a written directive is required. (Rule 0400-20-07-.44 of "State Regulations for Protection Against Radiation.")

F. To be used for radiation survey instrument calibration as part of a New England Nuclear Model 401-H gamma source assembly.

G.. Calibration, reference, or transmission sources. (Rule 0400-20-07-.31 of "State Regulations for Protection Against Radiation.")

Conditions (continued)

12. The licensee shall comply with applicable provisions of 0400-20-04, 0400-20-05, 0400-20-07, and 0400-20-10 of "State Regulations for Protection Against Radiation."

13. The Radiation Safety Officer for this license is D. R. Stone, Ed.D.

14. Licensed material is only authorized for use by, or under the supervision of:

A. Individuals permitted to work as authorized users in accordance with "State Regulations for Protection Against Radiation" 0400-20-07-.13 and 0400-20-07-.14.

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TENNESSEE DEPARTMENT OF ENVIRONMENT AND CONSERVATION
DIVISION OF RADIOLOGICAL HEALTH
3RD FLOOR, L&C ANNEX, 401 CHURCH STREET, NASHVILLE, TENNESSEE 37243

RADIOACTIVE MATERIAL LICENSE

Amendment 101

Supplementary Sheet

Page 4 of 5 Pages **License Number R-33008-B17**

B. The following authorized users for the material and medical uses as specified:

All radioactive materials authorized by this license except Item F:

Pradeep Kumar Jacob, M.D. Gary T. Smith, M.D.

All radioactive materials authorized by this license except Items D through F:

Steven Lane Altshuler, M.D.
Blaise Baxter, M.D.
Lynn S. Carlson, M.D.
Brent S. Deem, M.D.
Anoop Duggal, M.D.
Robert C. Game, M.D.
Michael S. Hertzog, M.D.
Stanley M. Higgins, M.D.
Rodney Kent Hutson, Jr., M.D.
Amit Anant Kubal, M.D.
Eugene R. Long, M.D.
Jerry W. Mitchell, M.D.
Steven D. Quarfordt, M.D.
Richard W. Rieck, M.D.
Roxsann L. Roberts, M.D.
Stephen Milliman Sabourin, M.D.
Ronald D. Waters, M.D.
Marshall R. Willis, M.D.

All radioactive materials authorized by this license except Items D and F:

Jacob A. Noe, M.D.

Radioactive material authorized by this license in Item F only:

D.R. Stone, Ed.D.

15. A. Sealed sources authorized by this license shall be tested for leakage and/or contamination in accordance with "State Regulations for Protection Against Radiation" 0400-20-07-.32.

B. Records of leak tests shall be retained in accordance with "State Regulations for Protection Against Radiation" 0400-20-07-.111.

C. Tests for leakage and/or contamination shall be performed by persons authorized by this Department, the U.S. Nuclear Regulatory Commission, or another Agreement State to perform such services.

16. The licensee shall not open sealed sources containing radioactive material.

17. The licensee is authorized to hold radioactive material with a physical half-life of 120 days or less for decay-in-storage before disposal in ordinary trash provided:

Find Shortage Areas: MUA/P by State and County

Shortage Designation Home
Find Shortage Areas
HPSA & MUA/P by Address
HPSA by State & County
HPSA Eligible for the Medicare Physician Bonus Payment

Criteria:
State: Tennessee
County: Bledsoe County
Bradley County
Grundy County
Hamilton County
McMinn County
Marion County
Meigs County
Polk County
Rhea County
Sequatchie County
ID #: All

Results: 36 records found.

Name	ID#	Type	Score	Designation Date	Update Date
Bledsoe County					
Bledsoe Service Area	03175	MUA	54.10	1978/11/01	
MCD (?) Unknown					
Bradley County					
Cleveland Division Service Area	03253	MUA	43.20	1994/05/12	
Grundy County					
Grundy Service Area	03194	MUA	46.10	1978/11/01	
MCD (?) Unknown					
Hamilton County					
Hamilton Service Area	03244	MUA	56.43	1982/06/03	1994/05/04
CT 0004.00					
CT 0006.00					
CT 0008.00					
CT 0011.00					
CT 0012.00					
CT 0013.00					
CT 0014.00					
CT 0016.00					
CT 0018.00					
CT 0019.00					
CT 0020.00					
CT 0023.00					
CT 0024.00					
CT 0025.00					
CT 0026.00					
CT 0031.00					
CT 0122.00					
CT 0123.00					
CT 0124.00					
McMinn County					
Mcminn Service Area	03211	MUA	57.00	1978/11/01	
MCD (?) Unknown					
Marion County					
Marion Service Area	03215	MUA	53.30	1978/11/01	
MCD (?) Unknown					
Meigs County					
Meigs Service Area	03217	MUA	27.40	1978/11/01	
MCD (?) Unknown					
Polk County					
Tuttletown Service Area	07498	MUA	57.30	1994/05/12	
Rhea County					
Rhea Service Area	03226	MUA	55.50	1978/11/01	
MCD (?) Unknown					
Sequatchie County					
Sequatchie Service Area	03230	MUA	54.30	1978/11/01	
MCD (?) Unknown					

NEW SEARCH | MODIFY SEARCH CRITERIA

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Origination Date: _____ Approval: _____		
Reviewed Date:	Revised Date:	Approval:
12/05		
	1/09	
5/11		
	6/12	
	1/13	

Erlanger Health System Policy and Procedure

Index Title: Emergency Response on Erlanger Baroness Campus
Originating Department: Administration
Number: 8316.951
Description for EHS Intranet: Emergency; Emergency Response; Off campus emergencies;

Policy statement: Erlanger Health System (EHS) provides this policy and process to determine who should respond when an emergency situation occurs on the Baroness Campus, and designated adjacent areas.

Scope: EHS employees within Baroness Campus.

Procedure:

When an emergency situation occurs within Baroness Campus / Miller Eye Center or any location on the ground or first floor of the Medical Mall, a Code Blue, Code 5 or Rapid Response call should be made.

Emergency situations that occur on adjacent grounds, e.g. driveways, parking lots, Whitehall Building, Fillauer Building, UT Family Practice, E kids, Lincoln Park Building and any area not described above should contact **911**. For additional medical expertise, the House Supervisor (HS) may be contacted.

Independent Physician Practices are not part of the Hospital and should be considered as adjacent grounds. For these areas, contact **911** in emergency situations.

The HS can be immediately contacted by dialing 778-6911. After assessing the nature of the emergency, while waiting for a response, the appropriate first aid care, CPR (Cardiopulmonary Resuscitation), containment of bleeding and/or comfort measures are to be offered. This care must be consistent with good medical practice (which may mean, "doing no harm" and not moving the person). The HS will determine the level of response required for emergency/medical situations after considering the following:

- Personal safety of the responding personnel.
- Availability of medically trained staff who could be dispatched to the location.
- Status/need of current and waiting patients, in that the medical care of these individuals will not be delayed or impaired by having emergency personnel dispatched to another location.

- Availability of portable medical equipment and supplies to be transported by emergency medical personnel to the location.

The Rapid Response Nurse (7789) may be called on to serve as the back up for the HS, should the HS be unavailable.

The HS will put the Emergency Department on stand-by for additional stabilizing and packaging equipment, including transport needs via stretcher.

See CPR Adult Code Blue Process, PC.120.
See CPR Pediatric Code 5 Process, 6012.08

Committee	Approval/Date
Legal	6/12
Code Committee	6/12

Medical Director	Approval/Date

References:

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Origination Date: 02 / Approval:		
Reviewed Date:	Revised Date:	Approval:

Erlanger Health System 'Policy and Procedure

Index Title: Outpatient Order Defined
Originating Department: Health Information Management
Number: 8316.1035
Description for EHS Intranet: Outpatient orders; electronic signature

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Policy statement: All outpatient orders submitted must be written or via Order Facilitator with electronic signature and follow the requirements as outlined below.

Scope: All EHS Service Departments

Definitions: To define the requirements of an Outpatient order to assure compliance with CMS regulations and EHS Compliance.

PROCEDURE:

1. **Written Orders:**
   A written order, fax, order facilitator process submission, or completed lab requisition form must be presented with every patient or non-patient specimen

This written order **MUST** contain the following elements:

- Patient name and Date of Birth
- Test or service requested
- Diagnosis supporting medical necessity
- Name of physician
- Date written, time and physician signature or physician electronically signed via order facilitator which applies date and time of transaction. NO SIGNATURE STAMPS ALLOWED.

The order facilitator **MUST** contain the following fields:

- Patient name
- Date of Birth
- Social Security Number
- Procedure Name
- CPT Code
- ICD-9 Code
- Reason for Visit (Narrative for ICD-9)
- Physician Signature (electronic)

2. Medical Necessity:

Government paid insurances (Medicare) are checked for Medical Necessity according to the Local Medical Review Policies and National Coverage Decisions which outline the diagnoses that CMS and the local Medicare intermediary considers appropriate.

3. Advance Beneficiary Notice:

If the diagnosis provided does not meet the Medical Necessity requirements, the treatment or test area will ask the patient to sign an ABN agreeing that he will be responsible for payment if Medicare denies the test. The ABN MUST be specific to the test lacking medical necessity. A "blanket" ABN must not be signed.

4. Non Patient Specimens:

Specimens submitted from a physician's office are checked by the testing area, for Medical Necessity and, in the absence of an ABN, a phone call is made to the office or facility to request additional diagnoses that may provide medical necessity. (A diagnosis must NOT be suggested. All diagnoses must originate from the ordering physician.) Any additional information obtained is documented on the requisition including to whom you spoke, caller's initials, date, and time.

5. Outpatient Orders:

- All outpatient orders must include the elements as outlined in **#1** above.
- Outpatient orders for test or lab are good for 30 days from the date the order was written.

6. Recurring Orders:

- A physician may submit an order for tests, injections, lab, infusions, etc., to be performed on a recurring basis.
- Order must include all elements as outlined in **#1** above
- Frequency of the test, etc. to be performed (such as monthly, weekly, bi-weekly, etc.)
- The length of time that the order is to occur such as 6 weeks, 2 weeks, 3 months, etc.
- Must be medically necessary
- Most will be updated every six months (Recurring Order is valid for only 6 months or less as indicated on the order)

Committee	Approval/Date

Medical Director	Approval/Date

References:

Consolidated Interim Financial Statements

May 31, 2013

This financial report is confidential and proprietary information. This document is not a public record until finalized and released by the chief financial officer. The embargo date for the information contained herein is June 24, 2013 at 5P.M. EST. No part of the information contained herein may be released or discussed publicly until this date.

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ERLANGER HEALTH SYSTEM
Unaudited Consolidated Balance Sheets as of: May 31, 2013

ASSETS	2013	2012
UNRESTRICTED FUND		
CURRENT:		
Cash and temporary investments	$ 29,637,443	$ 36,589,426
Funds held by trustee - current portion	28,669	32,777
Patient accounts receivable	275,882,672	313,443,353
Less allowances for patient A/R	(199,240,929)	(228,098,380)
Net patient accounts receivable	76,641,743	85,344,973
Other receivables	13,251,897	19,244,161
Due from third party payors	2,844,952	1,190,410
Inventories	12,957,913	12,258,795
Prepaid expenses	6,819,235	5,725,584
Total current assets	142,181,852	160,386,125
PROPERTY, PLANT, AND EQUIPMENT		
Net property, plant and equipment	164,799,817	161,463,884
LONG-TERM INVESTMENTS	388,750	-
OTHER ASSETS:		
Assets whose use is limited	129,862,927	139,036,586
Deferred debt issue cost	5,885,831	6,511,586
Other assets	22,630,565	13,710,563
Total other assets	158,379,323	159,258,735
TOTAL	$ 465,749,742	$ 481,108,744

LIABILITIES	2013	2012
UNRESTRICTED FUND		
CURRENT:		
Current maturities of long term debt	$ 8,481,075	$ 7,765,044
Accounts payable	43,913,082	41,108,437
Accrued salaries & related liabilities	17,619,755	22,599,222
Due to third party payors	93,625	4,790,848
Construction fund payable	206,175	51,398
Accrued Interest payable	1,308,205	1,396,515
Total current liabilities	71,621,918	77,711,465
POST RETIREMENT BENEFITS (GASB 45 & FAS 112)	15,172,411	13,249,837
RESERVE FOR OTHER LIABILITIES	25,571,930	25,049,781
LONG - TERM DEBT	169,534,471	170,736,507
FUND BALANCE:		
Unrestricted	166,061,296	179,267,616
Invested in capital assets, net of related debt	13,404,495	10,207,437
Restricted	4,383,221	4,886,101
	183,849,012	194,361,154
TOTAL	$ 465,749,742	$ 481,108,744

Erlanger Health System

Unaudited Consolidated Statement of Operations

For the periods ended May 31, 2013 and 2012

	Current Month			Year to Date		
	Actual	Budget	Prior Year	Actual	Budget	Prior Year
Net patient service revenue	$ 46,022,661	$ 48,620,700	$ 46,904,974	$ 492,072,380	$ 518,145,768	$ 477,787,963
Other revenue(expense)	3,209,894	2,855,183	2,798,720	31,528,180	30,806,405	29,732,204
Net operating revenue	49,232,555	51,475,883	49,703,695	523,600,561	548,952,173	507,520,167
Expenses						
Salaries and employee benefits	27,288,480	27,188,644	25,785,169	289,767,795	291,850,297	289,312,496
Supplies	5,820,282	7,173,188	6,515,479	71,133,524	75,424,297	70,471,653
Purchased services	10,468,173	9,457,119	8,890,028	106,742,050	102,831,665	96,034,254
Utilities	774,224	870,667	769,751	8,768,405	9,437,115	8,908,400
Drugs	2,810,832	2,867,699	2,662,450	30,741,499	31,944,747	29,960,856
Depreciation	2,177,420	2,233,241	2,219,479	24,210,923	24,137,435	24,353,602
Insurance & taxes	91,095	323,386	263,867	2,106,037	3,634,059	3,773,478
Total operating expense	49,430,506	50,113,943	47,106,223	533,470,233	539,259,615	522,814,739
Excess rev. over/(under) exp. from operations	(197,950)	1,361,940	2,597,472	(9,869,672)	9,692,558	(15,294,572)
NONOPERATING INCOME:						
Gain (Losses) on disposal of assets	3,660	(17,816)	(16,986)	(233,019)	(192,692)	(193,246)
Interest Income/Gains (Losses) on Investments	(571,451)	246,643	89,115	487,304	2,666,971	2,815,969
Interest expense	(763,003)	(838,532)	(835,165)	(8,398,694)	(9,061,744)	(9,010,565)
Mark to market on swaps	618,348	-	(306,252)	2,138,201	-	(806,209)
Provisions for income tax	21,810	(22,810)	(19,090)	(91,710)	(122,210)	(166,306)
Excess rev. over/(under) expenses	$ (888,588)	$ 729,425	$ 1,509,093	$ (15,967,590)	$ 2,982,884	$ (22,654,929)
Operating Margin	-0.40%	2.65%	5.23%	-1.88%	1.77%	-3.01%
Total Margin	-3.06%	1.42%	3.65%	-3.46%	0.54%	-4.30%

[redacted]

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY (d/b/a Erlanger Health System and Aggregate Discretely Presented Component Units)

Audited Combined Financial Statements

Years Ended June 30, 2012 and 2011

PYA

Certified Public Accountants

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Audited Combined Financial Statements

Years Ended June 30, 2012 and 2011

PYA
Certified Public Accountants

PERSHING YOAKLEY & ASSOCIATES, P.C.
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Knoxville, TN 37919
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Chattanooga-Hamilton County Hospital Authority
(d/b/a Erlanger Health System):

We have audited the accompanying combined balance sheets of Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System (the Primary Health System) and its aggregate discretely presented component units as of June 30, 2012 and 2011 and the related combined statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of Chattanooga-Hamilton County Hospital Authority's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Chattanooga-Hamilton County Hospital Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Chattanooga-Hamilton County Hospital Authority and its aggregate discretely presented component units at June 30, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 10 is not a required part of the basic financial statements but supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
September 14, 2012

Management's Discussion and Analysis

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis

Years Ended June 30, 2012 and 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System's financial performance provides an overview of the Primary Health System's financial activities for the fiscal year ended June 30, 2012 and 2011.

Erlanger Health System (the Primary Health System) is the largest healthcare provider in Southeast Tennessee. The Primary Health System maintains a number of very specialized clinical services such as Level I trauma, Level III neonatal, kidney transplantation, Regional Cancer Unit, a full service children's hospital, and open heart surgery, all of which are primarily serviced by four "Life Force" helicopters and supported by subspecialty physicians (residents, faculty and private attending physicians) located on its campuses.

OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS

The combined financial statements consist of two parts: Management's Discussion and Analysis and the combined financial statements. The combined financial statements also include notes that explain in more detail some of the information in the combined financial statements.

The combined financial statements of the Primary Health System offer short-term and long-term financial information about its activities. The combined balance sheets include all of the Primary Health System's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Primary Health System's creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the Primary Health System and assessing the liquidity and financial flexibility of the Primary Health System.

All of the fiscal year's revenues and expenses are accounted for in the combined statements of revenue, expenses, and changes in net assets. These statements measure the success of the Primary Health System's operations and can be used to determine whether the Primary Health System has successfully recovered all of its costs through the services provided, as well as its profitability and credit worthiness.

The final required financial statement is the combined statement of cash flows. The primary purpose of this statement is to provide information about the Primary Health System's cash receipts, cash payments and net changes in cash resulting from operating, investing, non-capital financing and financing activities. The statements also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2012 and 2011

OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS - Continued

The analyses of the combined financial statements of the Primary Health System begin on the next page. One of the most important questions asked about the Primary Health System's finances is "Is the financial condition of the Primary Health System as a whole better or worse as a result of the fiscal year's activities?" The combined balance sheets and the combined statements of revenue, expenses and changes in net assets report information about the Primary Health System's activities in a way that will help answer this question. These two statements report the net assets of the Primary Health System and changes in them. One can think of the Primary Health System's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Primary Health System's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, regulations and new or changed government legislation.

REPORTING ENTITY

The Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System (the Primary Health System) was created by a private act passed by the General Assembly of the State of Tennessee on March 11, 1976, and adopted by a majority of the qualified voters of Hamilton County, Tennessee on August 5, 1976. The Primary Health System is considered the primary governmental unit for financial reporting purposes. As required by generally accepted accounting principles, these financial statements present the Primary Health System and its component units. The component units discussed below are included in the Primary Health System's reporting entity because of the significance of their operational or financial relationships with the Primary Health System.

ContinuCare HealthServices, Inc., Plaza Surgery, G.P., Cyberknife of Chattanooga, LLC (Cyberknife), UT-Erlanger Medical Group, Inc. (the Medical Group) and Erlanger Health Plan Trust are legally separate organizations for which the Primary Health System is either financially accountable or owns a majority interest. Accordingly, these organizations represent component units of the Primary Health System. The financial statements of Erlanger Health Plan Trust are blended with the financial statements of the Primary Health System, as the Board of Erlanger Health Plan Trust is substantially the same as that of the Primary Health System.

During 2012, the Primary Health System acquired 100% ownership in Plaza Surgery, G.P. As a result, Plaza Surgery, G.P. is shown as a blended component unit in 2012. The 2011 balance sheet and statement of revenue, expenses and changes in net assets have been reclassified to include Plaza Surgery, G.P. as a blended component unit of the Primary Health System as well.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2012 and 2011

REPORTING ENTITY - Continued

During fiscal year 2011, Cyberknife was capitalized by contributions from the Primary Health System and certain other minority partners. Cyberknife provides radiation therapy services, specifically robotic stereotactic radiosurgical services through the use of a cyberknife stereotactic radiosurgery system on the Primary Health System campus. At June 30, 2011, the Primary Health System owned 51% of Cyberknife's outstanding membership units. The Medical Group was formed June 30, 2011 and provides professional healthcare services to the public and related services through its employed and contracted licensed physicians and other supporting healthcare providers. The Medical Group has no members; however, the Primary Health System may access the Medical Group's services. The Primary Health System is not entitled to any potential earnings of the Medical Group except for compensation for services rendered to the Medical Group on its behalf. The Medical Group is currently not active.

KEY FINANCIAL INDICATORS

The following key financial indicators are for Erlanger Health System as a whole. They are inclusive of the Primary Health System, ContinuCare HealthServices, Inc., and the 51% controlling share of Cyberknife of Chattanooga, LLC.

- Excess expenses over revenues from operations for Erlanger Health System for the fiscal year 2012 is $9.5 million compared to excess revenues over expenses of $5.4 million for the fiscal year 2011.
- Total cash and investment reserves at June 30, 2012 are $45 million (excluding $100 million of Board restricted and $39 million of funds held by Trustees or restricted by donors or others, including cash held for Erlanger East expansion).
- Net days in accounts receivable for Erlanger Health System (utilizing a three month rolling average of net revenue) are 53 days at June 30, 2012 compared to 56 days at June 30, 2011.
- For fiscal year 2012, Erlanger Health System recognized $11.4 million in essential access payments from the State of Tennessee compare to $7.4 million in fiscal year 2011.
- For fiscal year 2012, Erlanger Health System recognized $9.2 million in disproportionate share payments from the State of Tennessee compared to $2.9 million in fiscal year 2011.
- For fiscal year 2012, Erlanger Health System recognized $1.0 million in trauma fund payments from the State of Tennessee compared to $1.1 million in fiscal year 2011.
- For fiscal year 2012, Erlanger Health System recognized $3.3 million in a Medicare rural floor budget neutrality settlement payment.
- For fiscal year 2011, Erlanger Health System recognized $2.9 million in a one time supplemental distribution from the Tennessee Hospital Assessment Fund.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2012 and 2011

KEY FINANCIAL INDICATORS - Continued

The required bond covenants ratios for fiscal year 2012 compared to bond requirements are as follows:

		Master	*Bond Insurer Requirements*		
	June 30, 2012	*Trust Indenture*	*98 Series*	*00 Series*	*04 Series*
Debt service coverage ratio	1.16	1.10	1.10	1.35	1.35
Cushion ratio	7.94	N/A	1.50	N/A	N/A
Current ratio	2.35	N/A	1.50	1.50	1.50
Days cash on hand	81 days			65 days	65 days
Indebtedness ratio	48.93%				65%

Erlanger Health System satisfied the debt service coverage covenant required by the Master Trust Indenture but failed to satisfy the debt service coverage covenant required by one of the bond insurers. Erlanger Health System has contracted with a third party consultant, as required and approved by the Bond insurer, to provide a complete operational assessment and assist management in implementation of operational improvements.

NET ASSETS

Erlanger Health System's net assets for the combined Primary Health System and Aggregate Discretely Presented Component Units decreased by $17 million in the fiscal year 2012. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Primary Health System's operating activities. Discussion focuses on the Primary Health System and its blended component units.

Table 1- Net Assets (in Millions)

	June 30, 2012		*June 30, 2011*	
	Primary Health System	*Aggregate Discretely Presented Component Units*	*Primary Health System*	*Aggregate Discretely Presented Component Units*
Current and other assets	$ 314	$ 11	$ 335	$ 14
Capital assets	158	10	163	7
Total assets	$ 472	$ 21	$ 498	$ 21

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2012 and 2011

NET ASSETS - Continued

	June 30, 2012		*June 30, 2011*	
	Primary Health System	*Aggregate Discretely Presented Component Units*	*Primary Health System*	*Aggregate Discretely Presented Component Units*
Long-term debt outstanding	$ 177	$ 4	$ 179	$ 4
Other liabilities	108	3	115	3
Total liabilities	$ 285	$ 7	$ 294	$ 7
Net assets				
Capital assets, net of debt	$ -	$ 6	$ 5	$ 2
Restricted, expendable	2	-	3	-
Unrestricted	185	9	196	12
Total net assets	$ 187	$ 14	$ 204	$ 14

Net assets for the Primary Health System decreased from $204 million as of June 30, 2011 to $187 million as of June 30, 2012. The current ratio (current assets divided by current liabilities) increased from 2.13 in 2011 to 2.21 in 2012 for the Primary Health System.

Days in cash decreased from 105 days as of June 30, 2011 to 81 days as of June 30, 2012 for the Primary Health System due to decreased operating margins combined with a $12.5 million receivable for funds drawn on a line of credit extended to Hutcheson Medical Center, Inc. in fiscal year 2012. Days in net accounts receivable decreased from 57 days as of June 30, 2011 to 55 days as of June 30, 2012. The Primary Health System received $11.4 million in essential access payments from the State of Tennessee in fiscal year 2012 compared to $7.4 million in fiscal year 2011. Additionally, the Primary Health System received $9.2 million in disproportionate share payments from the State of Tennessee in fiscal year 2012 compared to $2.9 million in fiscal year 2011. The Primary Health System recognized $1.0 million in trauma funding in fiscal year 2012 compared to $1.1 million in fiscal year 2011. The Primary Health System also received $3.3 million in a Medicare rural floor budget neutrality settlement payment in fiscal year 2012. The Primary Health System received $2.9 million in a one time supplemental distribution from the Tennessee Hospital Assessment Fund in fiscal year 2011.

Capital assets for the Primary Health System were $158 million. Additions for the fiscal year 2012 amounted to $31 million while $59 million of assets were retired. The retirements included the sale and minority tenant leaseback of certain professional office buildings. A gain on the sale of approximately $6.6 million was realized of which $4.9 million was deferred. Depreciation expense was $26 million for the Primary Health System. Retirement of assets reduced

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2012 and 2011

NET ASSETS - Continued

accumulated depreciation by $52 million in fiscal year 2012. Construction in progress was $11 million as of June 30, 2011 and $7 million as of June 30, 2012. Included in construction in progress at June 30, 2012 is the Erlanger East expansion of $3.5 million.

	Primary Health System	
	2012	*2011*
Land and improvements	$ 25	$ 27
Buildings	224	243
Equipment	351	357
Total	600	627
Less accumulated depreciation	(449)	(475)
Construction in progress	7	11
Net property, plant and equipment	$ 158	$ 163

Long-term debt outstanding amounted to $177 million as of June 30, 2012 compared to $179 million as of June 30, 2011. The decrease in long-term debt reflects normal scheduled principal payments net of an increase in debt associated with the sale and minority tenant leaseback of the Erlanger East POB.

Other liabilities for the Primary Health System were $108 million as of June 30, 2012 compared to $115 million as of June 30, 2011.

CHANGES IN NET ASSETS

The focus for Erlanger Health System's management team during fiscal year 2012 was to increase the Primary Health System's volumes in a number of key product lines in a downturned economy, improve relationships with stakeholders, and improve operating efficiencies.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2012 and 2011

CHANGES IN NET ASSETS - Continued

Table 2- Changes in Net Assets (in Millions)

	June 30, 2012		*June 30, 2011*	
	Primary Health System	*Aggregate Discretely Presented Component Units*	*Primary Health System*	*Aggregate Discretely Presented Component Units*
Net patient revenue	$ 514	$ 12	$ 513	$ 11
Other revenue	22	16	20	15
Total revenue	536	28	533	26
Expenses:				
Salaries	300	13	292	12
Supplies and expenses	111	10	112	13
Purchased services	104	3	94	1
Insurance and taxes	5	1	4	-
Depreciation and amortization	26	1	26	-
Impairment of goodwill			-	-
Total expenses	546	28	528	26
Operating income revenues in excess of (less than) expenses	(10)	-	5	-
Nonoperating gains	4	-	2	-
Interest expense and other	(11)	-	(8)	-
Operating/capital contributions	-		1	-
Change in net assets	$ (17)	$ -	$ -	$ -

Net patient service revenue for the Primary Health System increased from $513 million in fiscal year 2011 to $514 million in fiscal year 2012. Although total admissions were up 3.9% over fiscal year 2011, inpatient surgical patients decreased 4.9% over prior year which resulted in a higher medicine mix of patients. Neonatal intensive care unit patient days decreased by 8.7% compared to prior year.

Salaries for the Primary Health System increased from $292 million in fiscal year 2011 to $300 million in fiscal year 2012 due to continued growth in strategically critical new physician practices, increase in employee benefits, and approximately $2.6 million in severance payments resulting from a reduction in workforce.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2012 and 2011

CHANGES IN NET ASSETS - Continued

Supplies and expenses decreased from $112 million in fiscal year 2011 to $111 million in fiscal year 2012.

Purchased services increased from $94 million in fiscal year 2011 to $104 million in fiscal year 2012 due to the implementation of Cyberknife services, service excellence initiatives, outsourced security services and billing service fees associated with increased employed physicians' revenue.

Insurance and taxes increased from $4 million in fiscal year 2011 to $5 million in fiscal year 2012 due to increased malpractice liability.

Depreciation and amortization expense was $26 million in fiscal years 2011 and 2012.

Interest expense, including gain (or loss) on mark-to-market of interest rate swaps, increased from $8 million in fiscal year 2011 to $11 million in fiscal year 2012. The market value of the liability for the mark-to-market of interest rate swaps increased by $1.1 million in fiscal year 2012 compared to a decrease of $1.6 million in fiscal year 2011.

OUTLOOK

The State of Tennessee continues to review the TennCare program (the State's Medicaid program). For fiscal years 2011 and 2012, the State passed a Hospital Coverage Fee to offset shortfalls in the State's budget for TennCare. The fee is expected to remain intact for the third consecutive year and TennCare rates are expected to be stable in fiscal year 2013. Out-of-state Medicaid and TennCare changes would affect the Primary Health System's bottom line with TennCare and Medicaid patients representing approximately 25% of the payer mix. Self Pay patients represent approximately 10% of the charge utilization Healthcare reform and future changes in Medicare regulations could also have an adverse effect on the Primary Health System's future operations since Medicare represents approximately 30% of the payer mix.

The Primary Health System recognized Essential Access and Disproportionate Share payments from the State of Tennessee fiscal year 2012 which increased by $10 million over fiscal year 2011. Additionally, the Primary Health System recognized trauma funding of $1 million fiscal year 2012. Payments from the State of Tennessee for the fiscal year 2013 are expected to be consistent with the fiscal year 2012. Due to the 1966 Hamilton County Sales Tax Agreement expiring in May 2011, the Hamilton County appropriations to the Primary Health System have been reduced from $3 million to $1.5 million for fiscal 2012. An increase for the fiscal year 2013 is unlikely.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2012 and 2011

OUTLOOK - Continued

Several initiatives are under way to bring the Primary Health System to a profitable position for the upcoming fiscal year. Operating improvements are being implemented to reduce expenses and grow surgical volumes. Increased surgery volumes are essential to the financial health of the Primary Health System

A Management Action Plan was implemented in December 2011 to address the negative operating margin. Included in the Management Action Plan was a labor reduction plan that reduced staff during the three months ended March 31, 2012 by approximately 180 FTEs. The ultimate goal of the labor management plan is to reach 5.4 FTE's per adjusted occupied bed, the midpoint operating efficiency for teaching hospitals in the country. The Primary Health System contracted with an outside consultant in June 2012 to conduct a complete operational assessment and growth strategy. The outside consultant will also assist in the implementation of the recommended operational improvements and growth initiatives.

Audited Combined Financial Statements

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Balance Sheets

	June 30, 2012	
	Primary Health System	*Aggregate Discretely Presented Component Units*
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,820,469	$ 35,714
Temporary investments	14,510,657	3,210,896
Assets limited as to use available for current liabilities	33,250	-
Patient accounts receivable, net	76,641,438	2,325,057
Estimated amounts due from third party payors	-	-
Due from other governments, net	899,987	501,472
Inventories	11,566,908	1,155,064
Other current assets	24,389,397	808,889
TOTAL CURRENT ASSETS	155,862,106	8,037,092
NET PROPERTY, PLANT AND EQUIPMENT	157,718,163	9,884,006
LONG-TERM INVESTMENTS, for working capital	262,396	2,608,721
ASSETS LIMITED AS TO USE	138,419,178	-
OTHER ASSETS:		
Deferred financing costs	6,458,443	-
Receivable from Hutcheson Medical Center	12,500,000	-
Other assets	1,073,820	1,131,272
TOTAL OTHER ASSETS	20,032,263	1,131,272
TOTAL ASSETS	$ 472,294,106	$ 21,661,091
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 36,758,702	$ 630,903
Accrued salaries and related liabilities	19,266,509	937,705
Estimated amounts due to third party payors	380,898	93,625
Due to other governments	501,472	899,987
Current portion of long-term debt and capital lease obligations	7,929,701	500,000
Other current liabilities	2,088,573	406,471
TOTAL CURRENT LIABILITIES	66,925,855	3,468,691
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	177,310,823	3,916,667
OTHER LONG-TERM LIABILITIES	41,397,245	-
NET ASSETS:		
Unrestricted	184,692,314	8,733,085
Invested in capital assets, net of related debt	(233,917)	5,542,648
Restricted expendable	2,201,786	-
TOTAL NET ASSETS	186,660,183	14,275,733
TOTAL LIABILITIES AND NET ASSETS	$ 472,294,106	$ 21,661,091

	June 30, 2011	
	Primary Health System	*Aggregate Discretely Presented Component Units*
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 35,645,908	$ 3,606,829
Temporary investments	15,413,787	2,784,481
Assets limited as to use available for current liabilities	28,775	-
Patient accounts receivable, net	80,444,632	2,014,281
Estimated amounts due from third party payors, net	8,086,255	-
Due from other governments, net	527,561	296,272
Inventories	11,821,744	1,089,525
Other current assets	15,090,565	483,631
TOTAL CURRENT ASSETS	167,059,227	10,275,019
NET PROPERTY, PLANT AND EQUIPMENT	163,330,930	6,887,710
LONG-TERM INVESTMENTS, for working capital	19,608,648	2,997,956
ASSETS LIMITED AS TO USE	139,905,215	-
OTHER ASSETS:		
Deferred financing costs	7,096,163	-
Receivable from Hutcheson Medical Center	-	-
Other assets	624,823	1,140,135
TOTAL OTHER ASSETS	7,720,986	1,140,135
TOTAL ASSETS	$ 497,625,006	$ 21,300,820
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 40,027,477	$ 327,018
Accrued salaries and related liabilities	28,252,508	1,021,723
Estimated amounts due to third party payors	-	93,625
Due to other governments	296,272	527,561
Current portion of long-term debt and capital lease obligations	7,366,079	500,000
Other current liabilities	2,365,674	341,072
TOTAL CURRENT LIABILITIES	78,308,010	2,810,999
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	178,584,382	4,416,667
OTHER LONG-TERM LIABILITIES	36,721,449	-
NET ASSETS:		
Unrestricted	196,366,376	12,020,639
Invested in capital assets, net of related debt	5,226,648	2,052,515
Restricted expendable	2,418,141	-
TOTAL NET ASSETS	204,011,165	14,073,154
TOTAL LIABILITIES AND NET ASSETS	$ 497,625,006	$ 21,300,820

See notes to combined financial statements.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Statements of Revenue, Expenses and Changes in Net Assets

	Year Ended June 30, 2012	
	Primary Health System	*Aggregate Discretely Presented Component Units*
OPERATING REVENUE:		
Charges for services:		
Net patient service revenue	$ 514,081,693	$ 11,758,042
Other revenue	22,467,500	16,271,756
TOTAL OPERATING REVENUE	536,549,193	28,029,798
OPERATING EXPENSES:		
Salaries, wages and benefits	300,099,607	13,101,376
Supplies and other expenses	111,165,013	10,454,042
Purchased services	103,908,488	2,788,577
Insurance and taxes	4,921,912	366,516
Depreciation	26,241,609	848,875
TOTAL OPERATING EXPENSES	546,336,629	27,559,386
OPERATING INCOME (LOSS)	(9,787,436)	470,412
NONOPERATING REVENUE (EXPENSES):		
Gain (loss) on disposal of assets	1,815,605	(17,139)
Interest and investment income	2,363,937	127,910
Interest expense	(10,232,817)	(218,057)
Provision for income taxes	-	(160,547)
Change in mark-to-market of interest rate swaps	(1,080,176)	-
NET NONOPERATING REVENUE (EXPENSES)	(7,133,451)	(267,833)
Income (loss) before contributions	(16,920,887)	202,579
Operating contributions (distributions)	(198,111)	-
Capital contributions/other, net	(231,984)	-
CHANGE IN NET ASSETS	(17,350,982)	202,579
NET ASSETS AT BEGINNING OF YEAR	204,011,165	14,073,154
NET ASSETS AT END OF YEAR	$ 186,660,183	$ 14,275,733

	Year Ended June 30, 2011	
	Primary Health System	*Aggregate Discretely Presented Component Units*
OPERATING REVENUE:		
Charges for services:		
Net patient service revenue	$ 512,916,915	$ 10,649,062
Other revenue	20,228,866	15,320,522
TOTAL OPERATING REVENUE	533,145,781	25,969,584
OPERATING EXPENSES:		
Salaries, wages and benefits	291,883,901	11,993,950
Supplies and other expenses	112,145,736	12,878,103
Purchased services	94,234,841	375,607
Insurance and taxes	4,358,779	19,947
Depreciation	25,569,614	396,391
TOTAL OPERATING EXPENSES	528,192,871	25,663,998
OPERATING INCOME	4,952,910	305,586
NONOPERATING REVENUE (EXPENSES):		
Gain (loss) on disposal of assets	7,676	8,489
Interest and investment income	2,312,468	500,508
Interest expense	(10,352,223)	(74,979)
Provision for income taxes	-	(332,251)
Change in mark-to-market of interest rate swaps	1,600,620	-
NET NONOPERATING REVENUE (EXPENSES)	(6,431,459)	101,767
Income (loss) before contributions	(1,478,549)	407,353
Operating distributions	74,410	-
Capital contributions/other, net	886,327	1,200,000
CHANGE IN NET ASSETS	(517,812)	1,607,353
NET ASSETS AT BEGINNING OF YEAR	204,528,977	12,465,801
NET ASSETS AT END OF YEAR	$ 204,011,165	$ 14,073,154

See notes to combined financial statements.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Combined Statements of Cash Flows

	Primary Health System Year Ended June 30,	
	2012	*2011*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from third-party payors and patients	$ 522,220,700	$ 492,855,235
Payments to vendors and others for supplies, purchased services, and other expenses	(222,829,499)	(207,866,302)
Payments to and on behalf of employees	(308,557,666)	(289,078,422)
Other receipts	17,379,057	18,684,496
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,212,592	14,595,007
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contributions (distributions)	(198,111)	74,410
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets, net	(20,962,299)	(26,446,924)
Principal paid on bonds, capital lease obligations and other	(7,396,156)	(7,850,276)
Proceeds from sale of assets	11,256,695	437,380
Interest payments on long-term debt	(9,652,060)	(9,881,067)
Proceeds received from long-term debt, net	-	2,177,310
Capital contributions/other, net	(231,984)	886,327
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(26,985,804)	(40,677,250)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest, dividends, and net realized gains on investments	2,168,553	1,700,558
Change in long-term investments for working capital	20,444,766	(4,132,702)
Advances under note agreeements	(12,948,997)	-
Cash provided by assets limited as to use	1,481,562	3,405,299
NET CASH PROVIDED BY INVESTING ACTIVITIES	11,145,884	973,155
DECREASE IN CASH AND CASH EQUIVALENTS	(7,825,439)	(25,034,678)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	35,645,908	60,680,586
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 27,820,469	$ 35,645,908

	Primary Health System Year Ended June 30,	
	2012	*2011*
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ (9,787,436)	$ 4,952,910
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		-
Depreciation	26,241,609	25,569,614
Provision for self-insurance	1,203,978	1,283,158
Non-cash operating revenue recognized on Plaza Surgery acquisition	(2,175,057)	-
Changes in assets and liabilities:		-
Patient accounts receivable, net	3,803,194	(5,257,277)
Estimated amounts due from (due to) third party payors, net	8,467,153	(14,287,980)
Inventories and other assets	(7,061,422)	(5,530,646)
Accounts payable and accrued expenses	(3,268,775)	7,844,284
Accrued salaries and related liabilities	(8,985,999)	1,433,114
Other current and long-term liabilities	(224,653)	(1,412,170)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 8,212,592	$ 14,595,007

SUPPLEMENTAL INFORMATION:

During the year ended June 30, 2012, the Primary Health System entered into several capital leases with third parties for office space. The capital leases represented liabilities at the inception of the leases of approximately $6,600,000. Additionally, in 2012, as a result of the acquisition of all outstanding units of Plaza Surgery, G.P. (Note A) deferred receipts were recognized as other operating revenue. Further, in connection with the gain on the sale of property discussed in Note E, proceeds due to Primary Health System of $2,355,000 were withheld and are reflected as other current assets in the combined balance sheets.

During the year ended June 30, 2011, the Primary Health System entered into a term loan with a financial institution to finance the acquisition of the Lifestyle Center, formerly leased from Sports Barn Inc. (see Notes E and G). The capital lease liability at time of purchase was approximately $4,954,000. Additionally, during the year ended June 30, 2011, the Primary Health System entered into a five year capital lease with Cardiovascular Care Center, PLLC for the lease of certain equipment and furniture. The capital lease liability at time of inception was approximately $313,915.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements

Years Ended June 30, 2012 and 2011

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System (the Primary Health System) was created by a private act passed by the General Assembly of the State of Tennessee on March 11, 1976, and adopted by a majority of the qualified voters of Hamilton County, Tennessee on August 5, 1976. The Chattanooga-Hamilton County Hospital Authority consists of the Primary Health System and its aggregate discretely presented component units as disclosed below.

The Primary Health System provides comprehensive healthcare services throughout Hamilton and Bledsoe counties, as well as outlying areas in southeastern Tennessee and north Georgia. These services are provided primarily through the hospital and other facilities located on the Baroness campus of Erlanger Medical Center. The Primary Health System also operates other hospitals and clinics throughout the area. The Primary Health System is considered the primary governmental unit for financial reporting purposes. As required by accounting principles generally accepted in the United States of America, these combined financial statements present the Primary Health System and its component units. The component units discussed below are included in the Primary Health System's reporting entity because of the significance of their operational or financial relationships with the Primary Health System.

The primary mission of the Primary Health System and its component units is to provide healthcare services to the citizens of Chattanooga, Hamilton County and the surrounding area. Only those activities directly associated with this purpose are considered to be operating activities. Other activities that result in gains or losses unrelated to the Primary Health System's primary mission are considered to be nonoperating.

ContinuCare HealthServices, Inc., Plaza Surgery, G.P., Cyberknife of Chattanooga, LLC, UT-Erlanger Medical Group, Inc., and Erlanger Health Plan Trust are legally separate organizations for which the Primary Health System is financially accountable. Accordingly, these organizations represent component units of the Primary Health System.

Blended Component Units: The financial statements of Erlanger Health Plan Trust are blended with the Primary Health System in the basic combined financial statements as the board of Erlanger Health Plan Trust is substantially the same as that of the Primary Health System.

Plaza Surgery, G.P. (Plaza) operated an ambulatory surgery center on the Primary Health System's campus. At June 30, 2011, the Primary Health System owned a controlling 51% interest in Plaza. As a general partnership, general partners are jointly and separately liable for the debts of Plaza. Accordingly, Plaza was fiscally dependent on the Primary Health System. In 2012, the Primary Health System purchased the remaining outstanding units of Plaza for $850,150. The accompanying 2012 combined financial statements reflect Plaza's operations,

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

assets and liabilities as a blended component unit. The 2011 combined financial statements have been reclassified to present Plaza as a blended component unit, rather than a discretely presented component unit as previously reported.

Plaza was capitalized September 1, 2001 by the contribution by the Primary Health System of cash of $566,000 and the going concern value (i.e., goodwill) of Plaza Ambulatory Surgery Center (valued at $7,402,000 by an appraisal agreed to by all of the general partners) and the contribution of cash from certain minority partners of $3,369,000. Concurrent with the capitalization of Plaza, and execution of an Asset Transfer Agreement, Plaza distributed cash of $2,935,000 to the Primary Health System such that the partners' capital of the Primary Health System and the minority partners after the distribution were in accordance with the Amended and Restated Partnership Agreement. The distribution of cash from Plaza has been reflected in other long-term liabilities of the Primary Health System in the accompanying 2011 combined financial statements as a result of certain put and call rights that the minority partners had with respect to Plaza. Upon the expiration of the put and call rights at August 31, 2003, the Primary Health System began amortizing this amount to income over the remaining term of the lease agreement associated with the Asset Transfer Agreement. Such amortization totaled $149,448 in 2011, and is reflected within other revenue in the accompanying combined statements of revenue, expenses and changes in net assets. In 2012, due to the acquisition of all remaining outstanding units, the remaining deferred receipts have been reflected as part of other revenue.

Discretely Presented Component Units: The aggregate discretely presented component units column in the basic combined financial statements includes the financial data of the Primary Health System's other component units. They are reported in a separate column to emphasize that they are legally separate from the Primary Health System. See combined, condensed financial information in Note Q.

1. ContinuCare HealthServices, Inc. and subsidiary (ContinuCare) provide health and supportive services to individuals in their homes in the Hamilton County and north Georgia areas. ContinuCare also provides retail pharmacy goods and services at four locations in Hamilton County. The Primary Health System owns 100% of the stock of ContinuCare. Separately audited financial statements for ContinuCare HealthServices, Inc. may be obtained by mailing a request to 1501 Riverside Drive, Suite 140, Chattanooga, Tennessee 37406.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

ContinuCare owes the Primary Health System for various services, supplies, and rents provided, or expenses paid on its behalf. Actual expenses incurred related to these services were $1,728,869 and $1,497,179 in 2012 and 2011, respectively, including management fees of approximately $33,000 each year. In addition, ContinuCare provides staffing, contract nurse visits, and administrative services to the Primary Health System. Such revenues were $508,888 and $293,986 in 2012 and 2011, respectively. Amounts due at June 30, 2012 and 2011 are included in amounts due to/from other governments in the accompanying combined financial statements.

2. Cyberknife of Chattanooga, LLC (Cyberknife) provides radiation therapy services, specifically robotic stereotactic radiosurgical services, through the use of a cyberknife stereotactic radiosurgery system on the Primary Health System's campus. At June 30, 2012 and 2011 the Primary Health System owns 51% of Cyberknife's outstanding membership units.

   During fiscal year 2011, Cyberknife was capitalized by the contribution of the Primary Health System of $612,000 and the contribution of cash from certain minority partners of $588,000. In addition to the capital contributions, each Member is required, as a condition precedent to such Member's admission as a Member of Cyberknife, to deliver limited guaranties, guaranteeing prorata repayment of indebtedness of Cyberknife incurred to finance its equipment costs and its working capital needs. As of June 30, 2012, total debt outstanding was $4,416,667. Income is allocated to Members based on ownership percentages and taxed at the Member level based upon the tax status of the partner. The portion of income allocated to the Primary Health System is exempt from income taxes based on the Primary Health System's tax-exempt status.

   As of June 30, 2012, CyberKnife owes the Primary Health System for various services, supplies and rents provided, or expenses paid on its behalf. The Primary Health System owes Cyberknife for radiation services provided by Cyberknife to the Primary Health System's patients. Revenues related to those services provided to the Primary Health System were $1,595,300 and $223,600 in 2012 and 2011, respectively. Amounts due at June 30, 2012 and 2011 are included in amounts due to/from other governments in the accompanying combined balance sheets.

3. UT-Erlanger Medical Group, Inc. (the Medical Group) was formed on June 30, 2011 and provides professional healthcare services to the public and related services through its employed and contracted licensed physicians and other supporting healthcare providers. The Medical Group has no members; however, the Primary Health System

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

may access the Medical Group's services. The Primary Health System is not entitled to any potential earnings of the Medical Group except for compensation for services rendered to the Medical group on its behalf. The Medical Group is not yet active.

Erlanger Health System Foundations (the Foundation): The Foundation assists the Primary Health System to promote and develop charitable and educational opportunities as it relates to those healthcare services provided by the Primary Health System. The Primary Health System is not financially accountable for the Foundation and as a result the Foundation has not been included in the combined financial statements.

Contributions from the Foundation totaling approximately $494,000 and $1,487,000 for the years ended June 30, 2012 and 2011, respectively, were recognized as contribution revenue by the Primary Health System.

Use of Estimates: The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting: The Primary Health System and its blended component units utilize the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements.* This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, and which does not conflict with or contradict GASB pronouncements: FASB Statements and Interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

December 15, 2011, however, earlier application is permitted and the provisions of the Statement are required to be applied retroactively for all periods presented. The requirements of this Statement were adopted by the Primary Health System in 2011 and the adoption did not have a material impact on the combined financial statements.

Recently Issued or Effective Accounting Pronouncements: In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus.* The Statement is effective for years beginning after June 15, 2010 and updates current standards regarding the financial reporting of financial instruments and external investment pools. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. The requirements of this Statement were adopted by the Primary Health System in fiscal year 2011 and the adoption did not have a material impact on the combined financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus.* The Statement is effective for financial statement periods beginning after June 15, 2012 and amends Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis - for State and Local Governments.* This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Management of the Primary Health System is evaluating the impact of this Statement on the combined financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement amends the net asset reporting requirements of GASB Statement No. 34 and other pronouncements by incorporating deferred outflows and inflows of resources into the definitions of the required components of the residual measure and renaming that measure as net position, rather than net assets. This Statement will be effective in fiscal year 2013 for the Primary Health System and is not expected to materially impact the combined financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes reporting standards that reclassifying items previously reported as assets or liabilities as deferred inflows or outflows. This Statement will be effective for the Primary Health System in 2014 and management is currently evaluating its impact on the combined financial statements.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

In January 2010, FASB issued Accounting Standard Update 2010-06, *Improving Disclosures about Fair Value Measurements*, as it relates to FASB ASC 820, *Fair Value Measurement*. This Update provides amendments to FASB ASC 820 that requires both new disclosures and further clarifies existing disclosures. This Update was effective for years beginning after December 15, 2009, except for disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which was effective for years beginning after December 15, 2010. The requirements of this Update, excluding those related disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, were adopted by the Primary Health System in fiscal year 2011 and the adoption did not have a material impact on the combined financial statements. As it pertains to Level 3 fair value measurements, this Update was adopted in 2012 but did not have a material impact upon adoption.

In August 2010, FASB issued Accounting Standard Update 2010-23, *Measuring Charity Care for Disclosure*, that amends Topic 954, *Health Care Entities*. This Update provides amendments that require cost to be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. The amendments in this Update also require disclosure of the method used to identify or determine such costs. This Update was effective for the 2012 fiscal year and was applied retrospectively to 2011. Adoption of this Update by the Primary Health System did not impact the combined financial statements.

Also, in August 2010, FASB issued Accounting Standard Update 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which provides amendments that clarify that a healthcare entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. Prior to this Update, healthcare entities were permitted to net insurance recoveries against the accrual of malpractice claims or similar liabilities. This Update was adopted in 2012 by the Primary Health System and there was no significant impact upon adoption.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at rates which reflect the amount expected to be collected. Net patient service revenue includes amounts estimated by management to be reimbursable by third-party payor programs under payment formulas in effect. Net patient revenue also includes an estimated provision for bad debts based upon management's evaluation

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

of collectability based upon the age of the receivables and other criteria, such as payor classification and management's assumptions about conditions it expects to exist and courses of action it expects to take. The Primary Health System's policies do not require collateral or other security for accounts receivable, although the Primary Health System routinely accepts assignment or is otherwise entitled to receive patient benefits payable under health insurance programs, plans or policies. Supplemental payments from the State of Tennessee are recognized when determinable (Note B).

Charity Care: The Primary Health System accepts patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain policies established by the County Auditor with regard to the Hamilton County indigent program or by the Primary Health System for other patients. Essentially, these policies define charity services as those services for which minimal payment is anticipated. In assessing a patient's inability to pay, the County and the Primary Health System utilize the generally recognized poverty income levels, but also include certain cases where incurred charges are significant when compared to the income of the patient. These charges are not included in net patient service revenue.

Inventories: Inventories consist principally of medical and surgical supplies, general store supplies, and pharmacy items and are stated at lower of cost (first-in, first-out) or fair market value.

Cash Equivalents: The Primary Health System considers all highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by board designation, held by trustees under indenture agreement, or otherwise restricted as to use, to be cash equivalents.

Investments: The Primary Health System's investments (including assets limited as to use) are reported at fair market value based on quoted market prices in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Assets limited as to use include funds designated by the Board, funds held by trustees under trust indentures, and funds restricted by donors or grantors for specific purposes. The Primary Health System considers those investments with maturities of more than three months when purchased, maturing in more than one year and whose use is not limited by board designation, held by trustees under indenture agreement, or otherwise restricted as to use, to be long-term investments. Investments, including assets limited as to use, consist of United States government, government agency and municipal bonds, corporate debt and other short-term investments.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

Temporary Investments: The Primary Health System considers all highly liquid investments with maturities of more than three months when purchased and maturing in less than one year, excluding amounts whose use is limited by board designation, held by trustees under indenture agreement, or otherwise restricted as to use, to be temporary investments. Temporary investments consist primarily of United States government agency bonds and commercial paper.

Derivative Instruments: The Primary Health System records all derivatives as assets or liabilities on the combined balance sheets at estimated fair value and includes credit value adjustments. The Primary Health System's derivative holdings consist of interest rate swap agreements. Since these derivatives are not designated as hedging instruments, mark-to-market accounting applies, and the gain or loss resulting from changes in the fair value of the derivatives is recognized in the accompanying combined statements of revenue, expenses and changes in net assets. The Primary Health System's objectives in using derivatives are to take advantage of the differences between taxable and tax-exempt debt, and manage exposure to interest rate risks associated with various debt instruments, however, none of these swap agreements have been designated as a hedge for accounting purposes (see Note N).

Net Property, Plant and Equipment: Property, plant and equipment is recorded on the basis of cost. Donated assets are recorded at their fair market value at the date of donation. Leases that are substantially installment purchases of property are recorded as assets and amortized over their estimated useful lives ranging from three to thirty years; related amortization is included in depreciation expense. Depreciation expense is computed over estimated service lives of the respective classes of assets using the straight-line method. The Primary Health System has established a capitalization threshold for property, plant and equipment of $2,500 except for computer equipment, which has a threshold of $1,000. Interest expense and interest income on borrowed funds related to construction projects are capitalized during the construction period, if material. Costs of maintenance and repairs are charged to expense as incurred.

The Primary Health System previously adopted the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Primary Health System did not experience any prominent events or changes in circumstances affecting capital assets which would require determination as to whether impairment of a capital asset has occurred during the years ended June 30, 2012 and 2011.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences: The Primary Health System recognizes an expense and accrues a liability for employees' paid annual leave and extended illness benefits in the period in which the employees' right to such compensated absences are earned. Liabilities expected to be paid within one year are included as accrued salaries and related liabilities in the accompanying combined balance sheets.

Deferred Financing Costs: Deferred financing costs consist principally of costs associated with bond issues and are being amortized, generally, over the terms of the respective debt issues by the effective interest method.

Income Taxes: The Primary Health System is exempt from income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, it qualifies for exemption from federal income taxes pursuant to IRC Section 115 as an instrumentality of the State of Tennessee. Therefore, no provision for income taxes has been recognized in the accompanying combined financial statements for the Primary Health System.

As a for-profit entity, ContinuCare is subject to state and federal income taxes. ContinuCare HealthServices, Inc. and its subsidiary file consolidated federal income tax returns separately from the Primary Health System. At June 30, 2012 and 2011, ContinuCare had no significant uncertain tax positions.

As a Limited Liability Corporation, Cyberknife, a discretely presented component unit, is subject to State of Tennessee income taxes. As such, Cyberknife recognizes liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. At June 30, 2012 and 2011, Cyberknife had no significant uncertain tax positions.

Contributed Resources: Resources restricted by donors for specific operating purposes are held as restricted funds and recognized as operating or capital contributions in the accompanying combined financial statements. When expended for the intended purpose, they are reported as operating distributions and recognized as other operating revenue. Contributed resources consist of amounts restricted by donors for specific purposes. Fundraising expenses are netted against contributions recognized.

Net Assets: Net assets of the Primary Health System are classified in three components. *Net assets invested in capital assets, net of related debt* consist of capital and other assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable* net assets are

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

net assets that must be used for a particular purpose that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. *Unrestricted* net assets are remaining net assets that do not meet the definition of *invested in capital assets, net of related debt* or *restricted expendable.*

Fair Value of Financial Instruments: The carrying amounts reported in the combined balance sheets for cash, accounts receivable, investments, accounts payable and accrued expenses approximate fair value.

The carrying value of long-term debt and capital lease obligations (including the current portion) was $185,240,524 as of June 30, 2012 and $185,950,461 as of June 30, 2011. The estimated fair value of long-term debt and capital lease obligations (including current portion) was $194,322,333 and $190,984,131 as of June 30, 2012 and 2011, respectively. The fair value of long-term debt related to fixed interest long-term debt and capital lease obligations was estimated using discounted cash flows, based on the Primary Health System's incremental borrowing rates or from quotes obtained from investment advisors. The fair value of long-term debt related to variable rate debt approximates its carrying value.

Subsequent Events: The Primary Health System evaluated all events or transactions that occurred after June 30, 2012 through September 14, 2012, the date the combined financial statements were available to be issued. Management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2012 combined financial statements, other than as disclosed in Note P.

Reclassifications: Certain reclassifications have been made to the 2011 combined financial statements to conform with the 2012 combined financial statements presentation. The 2011 financial statements have been reclassified to reflect Plaza as a blended component unit due to the Primary Health System's acquisition of a 100% interest in 2012. The impact on the previously reported Primary Health System's results is as follows:

	2011 Reclassified	*2011 As Originally Reported*
Income (loss) before contributions	$ (1,478,549)	$ (1,432,170)
Net assets	$ 204,011,165	$ 203,610,917

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE B--NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates by the Primary Health System to net patient service revenue as presented in the combined statements of revenue, expenses and changes in net assets for the years ended June 30, 2012 and 2011 is as follows:

	Primary Health System	
	2012	*2011*
Inpatient service charges	$ 1,007,816,189	$ 994,671,357
Outpatient service charges	657,002,015	626,186,169
Gross patient service charges	1,664,818,204	1,620,857,526
Less: Contractual adjustments and other discounts	974,199,369	943,692,763
Charity care	77,554,683	78,764,922
Estimated provision for bad debts	98,982,459	85,482,926
	1,150,736,511	1,107,940,611
Net patient service revenue	$ 514,081,693	$ 512,916,915

Charity Care and Community Benefit: The Private Act of the State of Tennessee establishing the Primary Health System obligates the Primary Health System to make its facilities and patient care programs available to the indigent residents of Hamilton County to the extent of funds appropriated by Hamilton County and adjusted operating profits, as defined. The annual appropriation from Hamilton County is not to be less than $3,000,000 in each fiscal year without approval of the Primary Health System, so long as the 1966 Hamilton County Sales Tax Agreement remains in effect. The Sales Tax Agreement expired in May 2011 which resulted in a $1,500,000 reduction for fiscal year 2012. Total charity care charges for services provided to the certified indigent residents of Hamilton County (net of the appropriation) were approximately $23,387,000 and $23,241,000 for the years ended June 30, 2012 and 2011 for the Primary Health System.

In addition to charity care provided to specific patients within the hospital setting, the Primary Health System also provides unreimbursed services to the community which includes free and low cost health screenings. The Primary Health System also hosts health fairs and helps sponsor many other events that are free to the public and are spread throughout the year in various community locations.

The Primary Health System's Community Relations department, which conducts health, wellness and safety education classes and health screenings, includes Erlanger HealthLink Plus,

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NOTE B--NET PATIENT SERVICE REVENUE - Continued

a free adult membership program with over 15,000 members in the Chattanooga Statistical Metropolitan Service Area. The program provides over 16 classes and/or screenings and fitness opportunities per month that are free or at a low cost to members and to the community. These classes and screenings are held in two primary locations with additional classes at satellite locations in the region. As part of Community Relations, Safe & Sound, an injury prevention service of Children's Hospital, offers free educational events regarding childhood injury prevention, including free car seat inspection and installation workshops. The Community Relations program utilizes the services of physicians, nurses, volunteers, educators, registered dietitians, social workers, secretaries and management personnel of the Primary Health System.

The Primary Health System's consumer call center, Erlanger HealthLink (423-778-LINK) is a free call center staffed by RN's to answer health questions, offer free physician referrals and to register participants in the programs offered by Community Relations, Women's & Infant Services and other departments and divisions of the Primary Health System.

Uncompensated Care Costs: The following table summarizes the estimated total uncompensated care costs provided by Erlanger Medical Center as defined by the State of Tennessee for the years ended June 30, 2012 and 2011:

	2012	*2011*
Uncompensated cost of TennCare/Medicaid	$ 27,864,201	$ 29,415,995
Traditional charity uncompensated costs	25,568,279	26,179,522
Bad debt cost	32,074,717	27,395,230
Total uncompensated care costs	$ 85,507,197	$ 82,990,747

The uncompensated cost of TennCare/Medicaid is estimated by taking the estimated cost of providing care to the TennCare/Medicaid patients less payments from the TennCare and Medicaid programs. The payments exclude revenues from essential access and other, one-time supplemental payments from TennCare of approximately $11,359,000 and $7,367,300 for the years ended June 30, 2012 and 2011, respectively, as such payments are not guaranteed for future periods. Traditional charity uncompensated costs exclude approximately $1,500,000 of local government support in 2012 and approximately $3,000,000 in 2011.

Revenue from Significant Payors: Gross patient service charges related to the Medicare program accounted for approximately 29.7% and 29.6% of the Primary Health System's patient service charges for the years ended June 30, 2012 and 2011, respectively. Gross patient service charges related to the TennCare/Medicaid programs accounted for approximately 24.8% and 25.4% of the Primary Health System's patient service charges for the years ending June 30, 2012

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Years Ended June 30, 2012 and 2011

NOTE B--NET PATIENT SERVICE REVENUE - Continued

and 2011, respectively. TennCare typically reimburses providers at an amount less than their cost of providing services to TennCare patients. At June 30, 2012 and 2011, the Primary Health System has a credit concentration related to the Medicare and TennCare programs.

During 2012 and 2011, the Primary Health System recognized revenue from these programs related to disproportionate share payments and trauma fund payments of $10,176,000 and $4,002,000, respectively. In fiscal year 2011, the Primary Health System received payments from the Tennessee Hospital Assessment Fund of $2,916,010, which have been recognized in the accompanying combined statements of revenue, expenses and changes in net assets. No such amounts were recognized in 2012. During 2012, the Primary Health System recognized approximately $3,100,000 of revenue related to electronic health records expenditures to be reimbursed by the Medicaid program. Such amounts are subject to audit and amounts ultimately received may differ from amounts currently recognized. Additionally, in 2012, the Primary Health System received approximately $3,200,000 from Medicare related to a rural floor budget neutrality settlement that has been recognized as revenue.

Laws and regulations governing the Medicare and TennCare/Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates, as they relate to revenue recognized from these programs, will change by a material amount in the near term. The estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined. Final determination of amounts earned under prospective payment and cost reimbursement activities is subject to review by appropriate governmental authorities or their agents. Management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under Medicare and Medicaid programs. The effect of prior year cost report settlements, or changes in estimates, increased net patient service revenue by approximately $1,770,000 in 2012 and by approximately $2,400,000 in 2011.

The Primary Health System believes that it is substantially in compliance with all applicable laws and regulations and is not aware of any on-going or threatened investigations involving allegations of potential wrongdoing. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare Recovery Audit Contractor Program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that any amounts payable related to audits through the Medicare Recovery Audit Contractor program, or similar initiatives, will not

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Years Ended June 30, 2012 and 2011

NOTE B--NET PATIENT SERVICE REVENUE - Continued

have a significant impact on the combined financial statements. However, due to the uncertainties involved, management's estimate could change in the future.

The Primary Health System has also entered into reimbursement agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates, per diems and discounts from established charges.

NOTE C--CASH AND CASH EQUIVALENTS

Cash and cash equivalents reported on the combined balance sheets include cash on hand and deposits with financial institutions including demand deposits and certificates of deposit.

The carrying amount of cash and cash equivalents consists of the following at June 30:

	Primary Health System	
	2012	*2011*
General Fund:		
Demand deposits	$ 25,703,339	$ 9,604,835
Cash on hand	10,254	10,454
Cash equivalents	2,106,876	26,030,619
	$ 27,820,469	$ 35,645,908

Cash equivalents include certificates of deposit, money market accounts, U.S. Government agency investments and commercial paper whose maturity, when purchased, was three months or less.

Bank balances consist of the following at June 30:

	Primary Health System	
	2012	*2011*
Insured (FDIC)	$ 3,770,196	$ 4,582,345
Collateralized under the State of Tennessee Bank Collateral Pool	20,008,446	19,435,388
	$ 23,778,642	$ 24,017,733

In addition to the above bank balances, the Primary Health System held investments which met the definition of a cash equivalent and are included in cash and cash equivalents. At June 30,

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE C--CASH AND CASH EQUIVALENTS - Continued

2012 and 2011, amounts totaling $2,106,876 and $21,030,619 respectively, were invested in U.S. Government agency obligations and commercial paper.

Through December 31, 2010, the Primary Health System maintained bank balances with certain financial institutions which participated in the Federal Deposit Insurance Corporation (FDIC) Transaction Account Guarantee (TAG) Program. The TAG program expired on December 31, 2010, with the Dodd-Frank Deposit Insurance Provision becoming effective as of the same date through December 31, 2012. Under the Dodd-Frank Deposit Insurance Provision, all non-interest bearing transaction accounts held by FDIC-insured depository institutions are fully insured by the FDIC for the entire balance of the account.

The Primary Health System's deposits would be exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or are collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name. The risk is that, in the event of the failure of a depository financial institution, the Primary Health System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

NOTE D--DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES

Patient Accounts Receivable, Net: Patient accounts receivable and related allowances are as follows at June 30:

	Primary Health System	
	2012	*2011*
Gross patient accounts receivable	$ 296,701,066	$ 310,069,861
Estimated allowances for contractual adjustments and uncollectible accounts	(220,059,628)	(229,625,229)
Net patient accounts receivable	$ 76,641,438	$ 80,444,632

Other Current Assets: Other current assets consist of the following at June 30:

	Primary Health System	
	2012	*2011*
Prepaid expenses	$ 5,000,884	$ 5,673,042
Other receivables	19,388,513	9,417,523
Total other current assets	$ 24,389,397	$ 15,090,565

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE D--DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES - Continued

Accounts Payable and Accrued Expenses: Accounts payable and accrued expenses consist of the following at June 30:

	Primary Health System	
	2012	*2011*
Due to vendors	$ 33,759,165	$ 37,792,269
Other	2,999,537	2,235,208
Total accounts payable and accrued expenses	$ 36,758,702	$ 40,027,477

Other Long-Term Liabilities: Other long-term liabilities consist of the following at June 30:

	Primary Health System	
	2012	*2011*
Pension obligation	$ 10,547,623	$ 10,650,625
Postretirement benefits other than pensions	4,851,114	2,820,106
Compensated absences	7,019,203	7,679,623
Medical malpractice and general liabilities	5,462,500	5,085,000
Interest rate swaps and other	8,651,568	10,486,095
Deferred gain on sale of property	4,865,237	-
Total other long-term liabilities	$ 41,397,245	$ 36,721,449

NOTE E--NET PROPERTY, PLANT AND EQUIPMENT

Net property, plant and equipment activity for the Primary Health System for the years ended June 30, 2012 and 2011 consisted of the following:

	Balance at June 30, 2010	*Additions*	*Reductions/ Transfers*	*Balance at June 30, 2011*	*Additions*	*Reductions/ Transfers*	*Balance at June 30, 2012*
Capital assets:							
Land and improvements	$ 26,962,649	$ -	$ 79,138	$ 26,883,511	$ 385,757	$ 1,913,362	$ 25,355,906
Buildings	239,419,920	4,026,045	-	243,445,965	9,082,187	28,652,217	223,875,935
Equipment	346,964,512	20,240,036	9,969,251	357,235,297	21,779,957	28,498,593	350,516,661
	613,347,081	24,266,081	10,048,389	627,564,773	31,247,901	59,064,172	599,748,502
Accumulated depreciation:							
Land and improvements	12,284,636	267,456	-	12,552,092	589,770	1,916,632	11,225,230
Buildings	168,324,908	8,311,286	11,971	176,624,223	7,720,427	22,551,870	161,792,780
Equipment	278,136,475	16,990,872	9,606,716	285,520,631	17,931,412	27,664,817	275,787,226
	458,746,019	25,569,614	9,618,687	474,696,946	26,241,609	52,133,319	448,805,236

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE E--NET PROPERTY, PLANT AND EQUIPMENT - Continued

	Balance at June 30, 2010	*Additions*	*Reductions/ Transfers*	*Balance at June 30, 2011*	*Additions*	*Reductions/ Transfers*	*Balance at June 30, 2012*
Capital assets net of accumulated depreciation	154,601,062	(1,303,533)	429,702	152,867,827	5,006,292	6,930,853	150,943,266
Construction in progress ($20,530,000 estimated cost to complete at June 30, 2012)	7,968,348	16,228,654	13,733,899	10,463,103	16,548,309	20,236,515	6,774,897
	$ 162,569,410	$ 14,925,121	$ 14,163,601	$ 163,330,930	$ 21,554,601	$ 27,167,368	$ 157,718,163

Depreciation expense totaled $26,241,609 and $25,569,614 for the years ended June 30, 2012 and 2011, respectively. Construction in progress at June 30, 2012 consists of various projects for additions and renovations to the Primary Health System's facilities.

During 1998, the Primary Health System entered into a twenty-year capital lease with Sports Barn Inc., for the operation of the Lifestyle Center, which was recorded in net property, plant and equipment at the inception of the lease. During fiscal year 2011, the Primary Health System purchased the land and building, recording the difference between the capital lease liability and purchase price as an addition to buildings.

During 2012, the Primary Health System entered into an agreement to sell certain professional office buildings (POBs) and concurrently entered into agreements to lease space from the purchaser. The sales price of the POBs was approximately $13,333,000, and a gain of approximately $6,695,000 was realized, including proceeds of approximately $2,355,000 held back until such time as certain of the leases are finalized. The amount held back is included as other current assets in the combined balance sheet at June 30, 2012.

Since the Primary Health System is leasing back certain space, accounting principles generally accepted in the United States required a portion of the gain be deferred and recognized over the terms of the leases. At June 30, 2012, the deferred gain totals approximately $4,865,000 and is included as a part of other long-term liabilities in the accompanying combined balance sheets. The remainder of the gain is included in non-operating revenue (expenses) in 2012.

The leases entered into (or committed to) under this sale/leaseback agreement include certain leases which meet the criteria for capitalization and are included in Note M.

NOTE F--INVESTMENTS AND ASSETS LIMITED AS TO USE

The Primary Health System's investments (including assets limited as to use) are reported at estimated fair value based, generally, on quoted market prices in accordance with GASB

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE F--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Primary Health System invests in United States government and agency bonds, municipal bonds, corporate debt, certificates of deposit and short-term money market investments that are in accordance with the Primary Health System's investment policy. Temporary investments at June 30, 2012 and 2011 consist primarily of United States government agency bonds and commercial paper.

The carrying and estimated fair values for long-term investments, and assets limited as to use, by type, at June 30 are as follows:

	Primary Health System	
	2012	*2011*
U.S. Government and agency bonds, including municipal bonds, mutual funds, and other	$ 119,596,675	$ 140,986,774
Corporate bonds and commercial paper	940,586	2,069,065
Short-term investments and cash equivalents	18,177,563	16,486,799
Total investments and assets limited as to use	$ 138,714,824	$ 159,542,638

Assets limited as to use are classified as follows:

	Primary Health System	
	2012	*2011*
By board of trustees for capital improvements	$ 108,023,256	$ 108,430,377
Under bond indentures - held by trustees	20,900,048	21,412,578
Self-insurance trust	6,089,183	6,644,322
Restricted by donors and other	3,439,941	3,446,713
	138,452,428	139,933,990
Less current portion	(33,250)	(28,775)
	$ 138,419,178	$ 139,905,215

Assets limited as to use by the board of trustees for capital improvements are to be used for the replacement of property and equipment or for any other purposes so designated.

Funds held by trustees under bond indenture at June 30 are as follows:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE F--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

	Primary Health System	
	2012	*2011*
Construction fund	$ 6	$ 521,373
Debt service reserve funds	20,712,768	20,708,421
Principal and interest funds	33,250	28,774
Other funds	154,024	154,010
Total funds held by trustees under bond indenture	$ 20,900,048	$ 21,412,578

These funds held by trustees consist primarily of United States government agency obligations, corporate debt, and other short-term investments and cash equivalents. The debt service reserve fund is to be used only to make up any deficiencies in other funds related to the Hospital Revenue and Refunding Bonds Series 1997A, Series 1998A, Series 2000 and Series 2004. The principal and interest funds are to be used only to pay principal and interest, respectively, on the Series 1997A, Series 1998A, Series 2000 and Series 2004 bonds.

The Primary Health System has implemented the disclosure requirements of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (GASB No. 40) and, accordingly, the Primary Health System has assessed the custodial credit risk, the concentration of credit risk, credit risk, and investment rate risk of its cash and investments. The Primary Health System's investment policy specifies the types of investments which can be included in board-designated assets limited as to use, as well as collateral or other security requirements. The investment policy also specifies the maximum maturity of the portfolio of board-designated assets. Assets limited as to use and held by trustees are invested as permitted by the bond indenture.

Custodial Credit Risk: The Primary Health System's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Primary Health System, and are held by either the counterparty or the counterparty's trust department or agent but not in the Primary Health System's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the Primary Health System will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

As of June 30, 2012 and 2011, the Primary Health System's investments, including assets limited as to use, were comprised of various short-term investments, U.S. government and government agency bonds, municipal obligations, corporate bonds, commercial paper, and other U.S. Treasury obligations. Substantially all of the Primary Health System's investments, including assets limited as to use, are uninsured or unregistered. Securities are held by the counterparty, or by its trust department or agent, in the Primary Health System's name.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE F--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

Concentration of Credit Risk: This is the risk associated with the amount of investments the Primary Health System has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Primary Health System's investment policy does not restrict the amount that may be held for any single issuer. At June 30, 2012, none of the Primary Health System's investments with any one issuer exceed 5% of its total investments except certain U.S. Government agencies.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB No. 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government. The Primary Health System's investment policy provides guidelines for its fund managers and lists specific allowable investments.

The credit risk profile of the Primary Health System's investments, including assets limited as to use, as of June 30, 2012, is as follows:

		Rating					
Investment Type	*Balance as of June 30, 2012*	*AAA*	*AA*	*A*	*BBB*	*BB*	*N/A*
U.S Government agency bonds	$ 50,063,655	$ 47,966,278	$ 1,597,377	$ -	$ -	$ -	$ 500,000
Bond mutual funds and other	6,078,302	6,078,302	-	-	-	-	-
Municipal bonds	5,691,156	2,051,180	2,637,336	1,002,640	-	-	-
Corporate bonds and commercial paper	940,586	-	-	940,586	-	-	-
Cash equivalents	18,177,563	-	-	-	-	-	18,177,563
Total investments	$ 80,951,262	$ 56,095,760	$ 4,234,713	$ 1,943,226	$ -	$ -	$ 18,677,563

Investment Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Primary Health System's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the Primary Health System's investment horizon and within specified risk tolerance and cash requirements.

The distribution of the Primary Health System's investments, including assets limited as to use, and excluding the self-insurance trust, by maturity as of June 30, 2012, is as follows:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE F--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

		Remaining Maturity				
Investment Type	*Balance as of June 30, 2012*	*12 months or less*	*13-24 Months*	*25-60 Months*	*Over 60 Months*	*N/A*
U.S. Government bonds and agency funds and other	$ 107,827,217	$ 17,991,643	$ 10,308,185	$ 41,900,477	$ 37,626,912	$ -
Municipal bonds	5,691,156	2,969,561	1,718,955	1,002,640	-	-
Corporate bonds and commercial paper	940,586	940,586	-	-	-	-
Cash equivalents	18,166,682	18,166,682	-	-	-	-
Total investments	$ 132,625,641	$ 40,068,472	$ 12,027,140	$ 42,903,117	$ 37,626,912	$ -

Additionally, the distribution of the Primary Health System's investments held under the self-insurance trust as of June 30, 2012, is as follows:

		Remaining Maturity					
Investment Type	*Balance as of June 30, 2012*	*24 months or less*	*25-60 Months*	*61-120 Months*	*121-240 Months*	*Over 240 Months*	*N/A*
U.S. Government bonds and agencies	$ 6,078,302	$ 1,282,522	$ 2,279,363	$ 1,647,220	$ 243,132	$ 626,065	$ -
Cash equivalents	10,881	10,881	-	-	-	-	-
Total investments	$ 6,089,183	$ 1,293,403	$ 2,279,363	$ 1,647,220	$ 243,132	$ 626,065	$ -

NOTE G-- LONG-TERM DEBT

Long-term debt at June 30 consists of:

	Primary Health System	
	2012	*2011*
Revenue and Refunding Bonds, Series 2004, net of bond discount of $684,990 in 2012 and $836,893 in 2011 and including bond issue premium of $1,584,311 in 2012 and $1,725,138 in 2011	$ 76,754,321	$ 81,373,245
Hospital Revenue Refunding Bonds, Series 2000, including bond issue premium of $304,215 in 2012 and $327,175 in 2011	36,404,215	38,327,175

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE G--LONG-TERM DEBT - Continued

	Primary Health System	
	2012	*2011*
Hospital Revenue Bonds, Series 1998A, net of bond discount of $295,384 in 2012 and $310,153 in 2011	18,859,616	18,984,847
Hospital Revenue Bonds, Taxable Series 1997A	41,000,000	41,000,000
Total bonds payable	173,018,152	179,685,267
Less: unamortized premium paid on advance refunding	(895,189)	(981,127)
Total bonds payable, net	172,122,963	178,704,140
Other Loans and Notes Payable	6,282,894	6,902,514
Capital leases - Note M	6,834,667	343,807
	185,240,524	185,950,461
Less: current portion	(7,929,701)	(7,366,079)
	$ 177,310,823	$ 178,584,382

During fiscal year 2011, the Primary Health System entered into a term loan (the Loan) with a financial institution in the maximum amount of $7,000,000 to finance the acquisition of the Lifestyle Center property. The rate of interest on the loan is a fixed rate equal to 5.45%. Monthly payments of principal and interest are payable on the first day of each month for a 10 year term beginning December 1, 2010, with a final payment equal to the unpaid principal plus accrued and unpaid interest due at maturity. The loan contains certain covenants and restrictions. Management believes the Primary Health System was in compliance with all such covenants at June 30, 2012.

The Primary Health System entered into a non-revolving line of credit loan (the Credit Agreement) with a financial institution in the maximum amount of $41,000,000 to potentially refund the outstanding principal amount of the Primary Health System's 1997A Hospital Revenue Bonds if London InterBank Offered Rate (LIBOR) materially changes. The rate of interest on disbursed funds, if any, will be a variable rate equal to the London InterBank Offered Rate plus an applicable margin, as outlined in the Credit Agreement. Monthly installment payments of the outstanding principal amount, if any, shall be amortized over a period of seventeen years. As of June 30, 2012, the Primary Health System has not drawn on the Credit Agreement.

During fiscal year 2010, the Primary Health System remarketed the Series 2004 Hospital Revenue Refunding Bonds (Series 2004) and the Series 2000 Hospital Revenue Refunding

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE G--LONG-TERM DEBT - Continued

Bonds (Series 2000), as described below, and converted such bonds from a variable auction rate to a fixed rate.

On January 1, 2004, the Primary Health System issued $85,000,000 insured Series 2004 bonds for the purpose of refunding $80,925,000 of the total outstanding Series 1993 bonds (described below). The Primary Health System also utilized the proceeds to pay certain issuance costs and contributed a portion of the bond proceeds in the amount of $1,633,658 to establish a debt service fund.

The Series 2004 bonds were issued on parity, with respect to collateral, with other outstanding bonds, described below. The Series 2004 bonds are also secured by a mortgage on a portion of the Primary Health System's main campus. The Series 2004 bonds mature annually on October 1 beginning in 2010 through 2023 in varying amounts. The Series 2004 bonds maturing after October 1, 2019 (excluding those maturing on October 1, 2023) may be redeemed by the Primary Health System after October 1, 2019 at a redemption price equal to the principal amount plus accrued interest. The bonds maturing on October 1, 2023 may be redeemed prior to maturity pursuant to the extraordinary optional redemption and redemption upon damage or condemnation provisions as described in the Remarketing Memorandum by the Primary Health System after October 1, 2014 at a redemption price equal to 100% of the principal amount plus accrued interest. Interest rates for the outstanding Series 2004 bonds range from 3.0% to 5.0%.

In August 2000, the Primary Health System issued $47,300,000 insured Series 2000 bonds for the purpose of refunding $40,000,000 of then outstanding Series 1987 bonds and funding a debt service reserve fund in an original amount of $4,407,377 and to pay issuance costs. The Series 2000 bonds were issued on parity with other outstanding bond issues. The Series 2000 bonds consist of term bonds maturing on October 1, 2023; and serial bonds maturing on October 1 annually beginning in 2010 through 2025. The bonds maturing on October 1, 2023 are subject to mandatory sinking fund redemption prior to maturity and without premium at the principal amount thereof on October 1. The Series 2000 bonds maturing after October 1, 2014 may be redeemed by the Primary Health System after October 1, 2014 at a redemption price equal to the principal amount plus accrued interest.

Interest rates for the Series 2000 outstanding bonds are as follows:

Series Bonds	- 3.75% to 5.0%
Term Bonds	- 5.0%

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE G--LONG-TERM DEBT - Continued

The Primary Health System's 1997A and 1998A Hospital Revenue Bonds (Series 1997A and Series 1998A, respectively) were issued to fund capital improvements for Erlanger Medical Center and establish a debt service reserve fund (1998A only) in an original amount of $2,174,125. The Series 1997A bonds are taxable and are secured on a parity under a Master Trust Indenture with other outstanding bond issues. The bonds mature beginning in fiscal year 2015 through fiscal year 2028. The 1997A bonds are subject to optional redemption at 100% plus accrued interest. Interest is payable at a variable auction rate for a 35-day period, which was 0.61% at June 30, 2012 and 0.48% at June 30, 2011.

The Series 1998A insured bonds are tax-exempt and consisted of $6,080,000 serial bonds maturing annually on October 1 of each year through 2013 in varying amounts; and term bonds maturing on October 1, 2018 and 2028 ($5,825,000 and $17,095,000, respectively). Such bonds are secured on parity with other outstanding bonds. The bonds maturing after October 1, 2008 may be redeemed by the Primary Health System after April 1, 2008 at amounts ranging from 100% to 101% of par value plus accrued interest.

Interest rates for the outstanding Series 1998A bonds are as follows:

$ 6,080,000 Series Bonds	- 4.75% to 5.00%
$ 5,825,000 Term Bonds	- 5.0%
$17,095,000 Term Bonds	- 5.0%

During fiscal year 2002, the Primary Health System defeased $5,320,000 of the 1998A bond issuance because IRS regulations do not permit tax-exempt debenture proceeds to be used to fund for-profit endeavors. These funds were used in the construction of the Plaza Ambulatory Surgery Center that was contributed to Plaza on September 1, 2001, as discussed in Note A. The Primary Health System contributed to an escrow account funds generated from its operations sufficient to fund all principal and interest payments for approximately $5,320,000 of debentures until maturity. The Primary Health System was released from being the primary obligor and cannot be held liable for the defeased obligation, of which approximately $4,700,000 remains outstanding at June 30, 2012.

The trust indentures and related documents underlying the bonds contain certain covenants and restrictions. As of June 30, 2012, the Primary Health System was not in compliance with one such covenant. Failure to meet the covenant required the Primary Health System to engage a management consultant to prepare a report containing recommendations. Prior to June 30, 2012, management had engaged such consultants and, as such, believe they have cured the covenant violation.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE G--LONG-TERM DEBT - Continued

The Primary Health System's scheduled principal and interest payments (estimated for variable rate debt based on rates at June 30, 2012) on bonds payable and other long-term debt (excluding capital leases) are as follows for the years ending June 30:

	Principal	*Interest*	*Total*
2013	$ 7,803,006	$ 6,700,700	$ 14,503,706
2014	7,889,626	6,296,060	14,185,686
2015	10,605,736	5,895,685	16,501,421
2016	11,641,442	5,414,599	17,056,041
2017	11,723,446	4,968,036	16,691,482
2018-2022	65,224,638	17,588,468	82,813,106
2023-2027	55,120,000	4,668,930	59,788,930
2028-2032	8,385,000	216,550	8,601,550
TOTAL	$ 178,392,894	$ 51,749,028	$ 230,141,922

Long-term debt activity for the Primary Health System for the years ended June 30, 2012 and 2011 consisted of the following:

	Balance at June 30, 2010	*Additions/ Amortizations*	*Reductions*	*Balance at June 30, 2011*	*Additions/ Amortizations*	*Reductions/ Accretions*	*Balance at June 30, 2012*
Bonds Payable							
Series 2004	$ 85,877,464	$ 151,609	$ 4,655,828	$ 81,373,245	$ 151,904	$ 4,770,828	$ 76,754,321
Series 2000	40,150,134	-	1,822,959	38,327,175		1,922,960	36,404,215
Series 1998A	19,500,077	14,770	530,000	18,984,847	14,769	140,000	18,859,616
Series 1997A	41,000,000	-	-	41,000,000		-	41,000,000
Premium paid on advance refunding	(1,067,065)	85,938	-	(981,127)	85,938	-	(895,189)
Total bonds payable	185,460,610	252,317	7,008,787	178,704,140	252,611	6,833,788	172,122,963
Term Loan	74,231	7,180,000	351,717	6,902,514		619,620	6,282,894
Capital leases	5,651,417	313,915	5,621,525	343,807	6,616,296	125,436	6,834,667
Total long-term debt	$ 191,186,258	$ 7,746,232	$ 12,982,029	$ 185,950,461	$ 6,868,907	$ 7,578,844	$ 185,240,524

NOTE H--PENSION PLAN

The Primary Health System sponsors a single-employer, non-contributory defined benefit pension plan covering substantially all employees meeting certain age and service requirements. In addition to normal retirement benefits, the plan also provides for early retirement, delayed retirement, disability and death benefits. The Primary Health System funds the plan as contributions are approved by the Board of Trustees but not in amounts less than the minimum

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE H--PENSION PLAN - Continued

required contribution determined by the plan's consulting actuary. During the years June 30, 2012 and 2011, the Primary Health System made contributions of $10,367,970 and $8,833,973, respectively to the plan. The Primary Health System has the right to amend, in whole or in part, any or all of the provisions of the plan. The plan issues a publicly available financial report that includes a financial statement and required supplementary information for the plan. That report may be obtained by writing to Erlanger Health System, Attention: Human Resources Department, 975 East Third Street, Chattanooga, Tennessee 37403 or by calling 423-778-7000.

The annual pension cost and net pension obligation for the years ended June 30, 2012 and 2011 are as follows:

	Primary Health System	
	2012	*2011*
Annual required contribution	$ 10,367,970	$ 8,833,977
Interest on net pension obligation	798,797	798,978
Adjustment to annual required contribution	(901,802)	(801,401)
Annual pension cost	10,264,965	8,831,554
Contributions made	(10,367,970)	(8,833,973)
Change in net pension obligation	(103,005)	(2,419)
Net pension obligation at beginning of year	10,650,625	10,653,044
Net pension obligation at end of year	$ 10,547,620	$ 10,650,625

The annual expected contribution for the years ended June 30, 2012 and 2011, was determined as part of the January 1, 2012 and 2011 actuarial valuations, respectively, using the projected unit credit cost method. The following actuarial assumptions were utilized:

	Primary Health System	
	2012	*2011*
Investment rate of return	7.5%	7.5%
Projected salary increases	4.0%	4-4.5%
Inflation	2.5%	2.5%
Increase in Social Security taxable wage base	3.5%	3.5%

Annual pension costs, contribution information and the net pension obligation for the last three fiscal years follows:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE H--PENSION PLAN - Continued

Three-Year Trend Information

Fiscal Year Ending	*Annual Pension Cost (APC)*	*Percentage of APC Contributed*	*Net Pension Obligation*
June 30, 2010	$ 7,554,226	99%	$ 10,653,044
June 30, 2011	8,831,554	100%	10,650,625
June 30, 2012	10,264,965	101%	10,547,620

The schedule of funding progress shown below presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The actuarial asset values are determined using prior year valuations with the addition of current year contributions and expected investment return on market value of assets based on an assumed rate of 7.5%, and deducting benefit payments and administrative expenses for the year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments using an average of cost and market value. The plan will reset the amortization base each year equal to the unfunded actuarial accrued liability to be amortized over a closed 30 year period and using a level dollar amount as the amortization factor.

Schedule of Funding Progress

Actuarial Valuation Date	*Actuarial Value of Assets*	*Actuarial Accrued Liability (AAL)*	*Total Unfunded AAL (UAAL)*	*Funded Ratio %*	*Annual Covered Payroll*	*UAAL as a Percentage of Covered Payroll*
1/1/10	$120,326,010	$ 136,794,907	$16,468,897	88.0%	$ 144,176,724	11.4%
1/1/11	125,335,932	150,926,741	25,590,809	83.0%	147,947,134	17.3%
1/1/12	124,520,999	160,704,688	36,183,689	77.5%	138,807,819	26.1%

Effective July 1, 2009, the Chattanooga-Hamilton County Hospital Authority Pension Plan was amended to be closed to new employees or rehires, and to further clarify the maximum years of service to be 30. The benefits of current employees will be protected and they will continue to participate in, and accrue services under, the Plan.

NOTE I--OTHER RETIREMENT PLANS

The Primary Health System maintains defined contribution plans under Section 403(b) and 401(a) of the IRC which provides for voluntary contributions by employees. The Plans are for the benefit of all employees 25 years of age or older with at least 12 months of employment.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE I--OTHER RETIREMENT PLANS - Continued

Effective January 27, 2011, both the 401(a) Profit Sharing Plan and the 403(b) Plan were revised and amended to meet the latest federal tax law requirements. There were no changes in benefits or retroactive changes.

The Primary Health System matches 50% of each participant's contribution up to 2% of the employee's earnings. Additionally, for eligible employees hired on after July 1, 2009 the Primary Health System will make profit sharing contributions equal to 3% of their earnings, regardless if the employee is making contributions. Employer contributions to the plan were $1,765,972 and $1,728,924 for the years ended June 30, 2012 and 2011, respectively.

NOTE J--POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Primary Health System sponsors three defined benefit postretirement plans, other than pensions, for full-time employees who have reached retirement age, as defined. The respective plans provide medical, dental and life insurance benefits, along with a lump-sum cash payment for one-half of the hours in the participant's extended illness benefit bank at retirement. The postretirement health and dental plan is contributory and contains other cost-sharing features, such as deductibles and coinsurance. The life insurance plan and the extended illness bank are noncontributory.

The Primary Health System reports other postemployment benefits in accordance with the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. This Statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

Beginning in 2018, under the Patient Protection and Affordable Care Act (the Act), a 40% excise tax will be imposed on the excess benefit provided to an employee or retiree in any month under any employer-sponsored health plan. In the case of a self-insured plan, the plan administrator must pay the tax. Because of the significant uncertainties regarding the excise tax on high cost plans, management of the Primary Health System is evaluating the impact of this Act but does not anticipate a material impact on the accrued liability at this time; however, actual results could differ from these estimates.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE J--POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

The following table shows the plan's funded status as of the actuarial valuation date as of June 30:

	2012	*2011*
Actuarial accrued liability	$ 28,788,147	$ 24,966,769
Market value of assets	-	-
Unfunded actuarial accrued liability	$ 28,788,147	$ 24,966,769

The following is a summary of the components of the annual OPEB cost recognized by the Primary Health System for the years ended June 30:

	2012	*2011*
Annual required contribution	$ 2,659,068	$ 2,506,202
Interest on the net obligation	163,912	96,386
Amortization of net obligation	(156,587)	(93,920)
OPEB cost recognized	$ 2,666,393	$ 2,508,668

Reconciliation of the net OPEB obligation for the fiscal years ended June 30:

	2012	*2011*
Net OPEB obligation beginning of the year	$ 4,097,800	$ 2,409,655
OPEB cost recognized	2,666,393	2,508,668
Actual contributions	(1,057,000)	(820,523)
Net OPEB obligation end of the year	$ 5,707,193	$ 4,097,800

Trend Information

Fiscal Year Ending	*Annual OPEB Cost*	*Percentage of Annual OPEB Cost Contributed*	*Net OPEB Obligation at the End of Year*
June 30, 2010	$ 2,202,195	59.6%	$ 2,409,655
June 30, 2011	2,508,668	32.7%	4,097,800
June 30, 2012	2,666,393	39.6%	5,707,193

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE J--POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

Schedule of Funding Progress

Actuarial Valuation Date	*Actuarial Value of Assets*	*Actuarial Accrued Liability*	*Unfunded Actuarial Accrued Liability*	*Annual Covered Payroll*	*Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll*	*Funded Ratio*
June 30, 2010	$ -	$ 20,854,837	$ 20,854,837	$144,176,724	14.5%	0%
June 30, 2011	-	24,966,769	24,966,769	147,947,134	16.9%	0%
June 30, 2012	-	28,788,147	28,788,147	138,807,819	20.7%	0%

The actuarial calculations reflect a long term perspective. Accordingly, the actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability. The calculations are based on the benefits currently provided under the terms of the plan as of the date of each valuation and on the sharing of cost between employer and plan members at that point.

The actuarial cost method utilized is the projected unit credit cost method. The 2012 postretirement benefit cost assumed an average weighted annual rate increase in per capita cost of covered health benefits of 9.6%, decreasing gradually to 4.6% in 2028 and subsequent years. The 2011 postretirement benefit cost assumed an average weighted annual rate increase in per capita cost of pre-Medicare covered health benefits of 8.0%, decreasing gradually to 4.5% in 2028 and subsequent years and a weighted average annual rate increase in per capita cost of post-Medicare covered healthcare benefits of 8.4%, decreasing gradually to 4.5% in 2028 and subsequent years.

The amortization method used is the level percent of payroll method over a thirty year amortization. Other assumptions include a 4% discount rate and assumed salary increases of 4.0% annually until age 65. The plan is currently open.

The Primary Health System also has a job injury program to provide benefits to workers injured in employment-related accidents. This program provides medical and indemnity benefits to employees injured in the course of employment for a period up to 24 months from the date of injury. The Primary Health System has recorded a projected liability of approximately $916,000 and $1,500,000 at June 30, 2012 and 2011, respectively. Such amounts are included as a part of

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE J--POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

other long-term liabilities in the combined balance sheets. The projected liability was discounted using a 4% rate of return at June 30, 2012 and 2011.

NOTE K--MEDICAL MALPRACTICE AND GENERAL LIABILITY CLAIMS

As of January 1, 1976, the Primary Health System adopted a self-insurance plan to provide for malpractice and general liability claims and expenses arising from services rendered subsequent to that date. In 1980, the Primary Health System's Self-Insurance Trust Agreement (the Agreement) was amended to include all coverages that a general public liability insurance policy would cover. In 1988, the Agreement was amended and restated to comply with amendments to the Tennessee Governmental Tort Liability Act and to formally include any claims and expenses related to acts of employees of the Primary Health System. The Primary Health System is funding actuarial estimated liabilities through a revocable trust fund with a bank included as a part of Assets Limited as to Use in the accompanying combined balance sheets. Such amounts in the trust can be withdrawn by the Primary Health System only to the extent there is an actuarially determined excess. The annual deposit to the self-insurance trust fund is determined by management based on known and threatened claims, consultation with legal counsel, and a report of an independent actuary. Losses against the Primary Health System are generally limited by the Tennessee Governmental Tort Liability Act to $300,000 for injury or death to any one person in any one occurrence or $700,000 in the aggregate. However, claims against healthcare practitioners are not subject to the foregoing limits applicable to the Primary Health System. Any such individuals employed by the Primary Health System, excluding employed physicians for which the Primary Health System has purchased insurance coverage, are covered by the Trust to the limits set forth therein.

In the opinion of management, the revocable trust fund assets are adequate at June 30, 2012, to cover potential liability and malpractice claims and expenses that may have been incurred to that date.

The Primary Health System provides for claims and expenses in the period in which the incidence related to such claims occur based on historical experience and consultation with legal counsel. It is the opinion of management that the reserve for estimated losses and loss adjustment expense (LAE) at June 30, 2012 and 2011, respectively, is adequate to cover potential liability and malpractice claims which may have been incurred but not reported (IBNR) to the Primary Health System. Such reserve for IBNR claims reflect a discount rate of 5.5% based on the Primary Health System's expected investment return during the payout period.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE K--MEDICAL MALPRACTICE AND GENERAL LIABILITY CLAIMS - Continued

The following is a reconciliation of changes in the estimated losses and LAE that have been recognized in the combined financial statements for the years ended June 30, 2012 and 2011:

	Primary Health System	
	2012	*2011*
Reserve for losses and LAE at beginning of year	$ 5,085,000	$ 4,750,000
Provision for claims	1,203,977	1,618,158
Payments on claims	(826,477)	(1,283,158)
Reserve for losses and LAE at end of year	$ 5,462,500	$ 5,085,000

NOTE L--COMMITMENTS AND CONTINGENCIES

Litigation: The Primary Health System is subject to claims and suits which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings has been adequately provided for in its combined financial statements, and will not have a material effect on the Primary Health System's results of operations or financial position.

Management Agreement: During 2012, the Primary Health System entered into a Management Agreement with a third party related to Plaza. The Agreement is for an initial term of five years (subject to one three-year renewal). The Agreement requires annual payments of $180,000 and reimbursement of defined expenses.

Government Investigation: The Primary Health System resolved an investigation, without any admission of wrongdoing by the Primary Health System, in October 2005 by entering into a civil settlement agreement with the U.S. Department of Justice and the Office of Inspector General of HHS. At that time the Primary Health System also entered into a five year Corporate Integrity Agreement. During fiscal 2011, the Primary Health System was released from the Corporate Integrity Agreement. The Primary Health System was not suspended, sanctioned or otherwise restricted from participating in any federal, state or private health insurance program.

Health Care Reform: In March 2010, Congress adopted comprehensive healthcare insurance legislation, Patient Care Protection and Affordable Care Act and Health Care and Education Reconciliation Act. The legislation, among other matters, is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare and Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE M--LEASES

Capital: As discussed in Note E, during 2012, the Primary Health System entered into a sale/leaseback arrangement, under which certain leases of office space meet the criteria as capital leases. Interest on these leases has been estimated at 7% per annum.

During 2011, the Primary Health System acquired a parcel of land from the Industrial Development Board of the City of Chattanooga, Tennessee for a nominal amount. The Primary Health System also entered into a project development agreement with a developer to facilitate final design, financing and construction of a medical office building for the benefit of Volkswagen Group of America Chattanooga Operations, LLC (Volkswagen) on this land. The Primary Health System has entered into a forty year ground lease, with the option of two ten year renewal terms, of the parcel to the developer. Additionally, in 2012, the Primary Health System has entered into a twenty year lease with the developer for certain space in the medical office building for a wellness center and other operations under a capital lease agreement.

Also, in fiscal year 2011, the Primary Health System entered into a five year capital lease with Cardiovascular Care Center, PLLC for the lease of certain equipment and furniture. At the completion of the lease term the Primary Health System will become owner of any of the leased assets whose fair market value is equal to or less than 10% of the fair market value at the inception of the lease. Title for such assets will be transferred to the Primary Health System.

The following is an analysis of the property under capital leases by major classes at June 30:

	Primary Health System	
	2012	*2011*
Buildings	$ 6,597,396	$ 1,025,649
Equipment	323,765	313,915
	6,921,161	1,339,564
Less: accumulated amortization	(159,961)	(1,014,793)
	$ 6,761,200	$ 324,771

The following is a schedule of future minimum lease payments under capital leases at June 30, 2012:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE M--LEASES - Continued

Year Ending June 30,	
2013	$ 889,250
2014	688,960
2015	702,264
2016	715,938
2017	729,998
2018-2022	3,875,094
2023-2027	3,622,896
2028-2032	3,527,970
Total minimum lease payments	14,752,370
Less: amount representing interest	(7,917,703)
Present value of minimum lease payments (including current portion of $126,695)	$ 6,834,667

Operating: The Primary Health System rents office space and office equipment under non-cancelable operating leases through 2020, containing various lease terms. The leases have other various provisions, including sharing of certain executory costs. Rent expense under operating leases was approximately $6,130,000 and $5,370,000 in 2012 and 2011, respectively. Future minimum lease commitments at June 30, 2012 for all non-cancelable leases with terms in excess of one year are as follows:

Year Ending June 30,	
2013	$ 4,203,775
2014	3,418,887
2015	2,305,759
2016	1,342,752
2017	977,443
Thereafter	660,712
	$ 12,909,328

Rental Revenues: The Primary Health System leases office space to physicians and others under various lease agreements with terms in excess of one year. Rental revenue recognized for the years ended June 30, 2012 and 2011 totaled approximately $6,043,000 and $6,443,000, respectively. The following is a schedule of future minimum lease payments to be received for the years ending June 30:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE M--LEASES - Continued

Year Ending June 30,	
2013	$ 1,691,235
2014	1,163,209
2015	949,702
2016	596,234
2017	29,068
Thereafter	-
	$ 4,429,448

NOTE N--DERIVATIVE FINANCIAL INSTRUMENTS

Simultaneous with the issuance of the $85,000,000 Series 2004 bonds discussed in Note G, the Primary Health System entered into interest rate swap agreements. In an effort to take advantage of the differences between taxable and tax-exempt debt, and manage exposure to interest rate risks associated with various debt instruments, the Primary Health System was a party to three distinct interest rate swap agreements with Lehman Brothers Special Financing, Inc. (Lehman).

In 2012, the Primary Health System entered into a novation agreement whereby Lehman transferred its rights and obligations under the interest rate swaps to another party. The terms of the interest rate swap agreements did not substantially change and no gain or loss was recognized on this transfer.

With respect to the Series 2004 bonds, the Primary Health System executed a swap where the Primary Health System receives a variable rate equal to 67% of the one-month LIBOR-BBA rate and pays a fixed rate of 3% on a notional amount of $18,500,000 at June 30, 2012. Unless terminated at an earlier date (at the Primary Health System's option), this agreement terminates on October 1, 2013.

With respect to the 1997A Series bonds, the Primary Health System executed a swap agreement whereby the Primary Health System receives a variable rate equal to the one-month LIBOR-BBA rate and pays a fixed rate equal to 5.087% on a notional amount of $41,000,000. Unless terminated at an earlier date (at the Primary Health System's option), this agreement terminates on October 1, 2027.

With respect to the 1998A Series bonds, the Primary Health System executed a swap agreement whereby the Primary Health System receives a fixed rate of 3.932% and pays a variable rate equal to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE N--DERIVATIVE FINANCIAL INSTRUMENTS - Continued

Index on a notional amount of $16,305,000. Unless terminated at an earlier date (at the Primary Health System's option), this agreement terminates on October 1, 2027.

Although these swap instruments are intended to manage exposure to interest rate risks associated with the various debt instruments referred to above, none of these swap agreements have been designated as a hedge for accounting purposes. Accordingly, the interest rate swaps are reflected in the accompanying combined balance sheets at their aggregate fair value (a net liability of $7,112,464 and $6,032,288 at June 30, 2012 and 2011, respectively) and the changes in the value of the swaps are reflected as a component of nonoperating revenues in the combined statements of revenue, expenses and changes in net assets.

Management has considered the effects of any credit value adjustment and while management believes the estimated fair value of the interest rate swap agreements is reasonable, the estimate is subject to change in the near term.

NOTE O--FAIR VALUE MEASUREMENT

FASB ASC 820, *Fair Value Measurements and Disclosures,* establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Primary Health System's own assumptions.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Primary Health System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE O--FAIR VALUE MEASUREMENT - Continued

The following tables present assets and liabilities reported at fair value as of June 30, 2012 and 2011 and their respective classification under the FASB ASC 820 valuation hierarchy:

	Carrying Value	*Level 1*	*Level 2*	*Level 3*
As of June 30, 2012				
Assets Measured at Fair Value on a Recurring Basis				
Investment in government and agency bonds, including municipal bonds, mutual funds and others	$ 119,596,675	$ 119,596,675	$ -	$ -
Investments in corporate bonds and commercial paper	940,586	940,586	-	-
Short-term investments and cash equivalents	32,688,220	32,688,220	-	-
Liabilities Measured at Fair Value on a Recurring Basis				
Interest rate swap agreements	(7,112,464)	-	-	(7,112,464)
As of June 30, 2011				
Assets Measured at Fair Value on a Recurring Basis				
Investment in government and agency bonds, including municipal bonds, mutual funds and others	$ 140,986,774	$ 140,986,774	$ -	$ -
Investments in corporate bonds and commercial paper	2,069,065	2,069,065	-	-
Short-term investments and cash equivalents	31,900,586	31,900,586	-	-
Liabilities Measured at Fair Value on a Recurring Basis				
Interest rate swap agreements	(6,032,288)	-	-	(6,032,288)

A certain portion of the inputs used to value the Primary Health System interest rate swap agreements are unobservable inputs available to a market participant. As a result, the Primary Health System has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

The following table provides a summary of changes in the fair value of the Primary Health System's interest rate swap agreements liabilities during the fiscal year ended June 30:

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE O--FAIR VALUE MEASUREMENT - Continued

	2012	*2011*
Beginning of year	$ (6,032,288)	$ (7,632,908)
Change in mark-to-market of interest rate swaps	(1,080,176)	1,600,620
End of Year	$ (7,112,464)	$ (6,032,288)

NOTE P--MANAGEMENT AGREEMENT

On April 13, 2011, the Primary Health System's Board of Trustees approved a resolution authorizing a management agreement (the Agreement) between the Primary Health System, Hutcheson Medical Center, Inc. and affiliates (collectively, Hutcheson) and the Hospital Authority of Walker, Dade and Catoosa Counties in Georgia (the Hospital Authority).

Additionally, the Board authorized the Primary Health System to accept assignment of a contract between Hutcheson and a third party consulting firm, described below.

Under the terms of the Agreement, the Primary Health System will propose general operating policies and directives for Hutcheson; be responsible for the day-to-day management of Hutcheson and provide oversight of ancillary aspects of Hutcheson, such as physician practices, education, research, and clinical services. The Agreement's initial term is through March 31, 2021 and the Primary Health System has the option to extend the agreement for two additional five year terms. The Primary Health System may terminate the Agreement, without cause, upon written notice at any point subsequent to May 25, 2013. Upon such termination, Hutcheson is obligated to make a Termination Payment to the Primary Health System consisting of all expenses then owed by Hutcheson and any outstanding advances under a Line of Credit Agreement, discussed below. Hutcheson may also terminate the agreement without cause at any point subsequent to May 25, 2013 by paying the Termination Payment, as well as the lesser of a) $1,000,000 per year for each year the Agreement has been in place, or b) $1,000,000 less any management fees paid in each Agreement year.

In addition to the Agreement, the Primary Health System agreed to extend a Line of Credit (the Line) to the Hospital Authority. The maximum amount available under the Line is $20,000,000 and there were no draws on this Line as of June 30, 2011. At June 30, 2012, the draws on the Line totaled $12,500,000. Subsequent to June 30, 2012, an additional draw of $1,200,000 was made on this Line.

The Line calls for interest only payments each month on the outstanding balance, based on the London InterBank Offered Rate plus 4% or a rate of 5%, whichever is greater. However, any

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE P--MANAGEMENT AGREEMENT - Continued

unpaid interest through March 31, 2013 is deferred and paid over a twelve-month period commencing on that date. All outstanding draws are due at the maturity date, which is consistent with the Agreement termination dates, discussed above.

The Line is secured by a Security Agreement on the primary Hutcheson medical campus. Further, the Counties of Walker and Catoosa, Georgia (collectively, the Counties) have provided additional security in the form of guarantees under an Intergovernmental Agreement. Under the Intergovernmental Agreement, the Counties have each agreed to a maximum liability of $10,000,000 to secure the line. The form of such guarantee is at the option of the Counties and would become enforceable upon a notice of default delivered by the Primary Health System. The form of the guarantee selected by the Counties can include a) a payment of 50% by each County of the amounts owing under the Line, b) payments as they become due up to the respective $10,000,000 limits or c) after non-Judicial foreclosure under the Security Agreement, each County could elect to pay 50% of any deficiency between the amount outstanding under the Line and the then fair market value. Both Counties have agreed to levy annual property taxes, if current to honor these guarantees.

The Primary Health System accepted assignment of a contract between Hutcheson and a third party consultant. Such contract called for the third party consultant to provide management expertise and to develop, in conjunction with the Primary Health System and the Hutcheson Board of Trustees, a turnaround plan for Hutcheson. This contract required monthly payments of $40,000 and was terminated in 2012.

NOTE Q--COMBINED, CONDENSED FINANCIAL INFORMATION

The following is combined, condensed, financial information related to those aggregate discretely presented component units as of and for the years ended June 30, 2012 and 2011:

	ContinuCare HealthServices, Inc.	*Cyberknife of Chattanooga, LLC*
As of June 30, 2012		
Due from other governments	$ 234,872	$ 266,600
Other current assets	7,264,697	270,923
Total Current Assets	7,499,569	537,523

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE Q--COMBINED, CONDENSED FINANCIAL INFORMATION - Continued

	ContinuCare HealthServices, Inc.	*Cyberknife of Chattanooga, LLC*
Net property, plant and equipment	4,916,085	4,967,921
Other assets	3,664,684	75,309
Total Assets	$ 16,080,338	$ 5,580,753
Due to other governments	$ 779,987	$ 120,000
Other current liabilities	1,814,259	754,445
Total Current Liabilities	2,594,246	874,445
Long-term debt and capital lease obligations	-	3,916,667
Total Liabilities	2,594,246	4,791,112
Net assets		
Unrestricted	8,570,007	163,078
Invested in capital assets, net of related debt	4,916,085	626,563
Restricted expendable	-	-
Total Net Assets	13,486,092	789,641
Total Liabilities and Net Assets	$ 16,080,338	$ 5,580,753
Period Ended June 30, 2012		
Net patient and operating revenue	$ 26,434,498	$ 1,595,300
Operating expenses:		
Salaries, wages and benefits	12,898,683	202,693
Supplies and other expenses	10,146,545	307,497
Purchased services	2,609,813	178,764
Insurance and taxes	259,226	107,290
Depreciation	327,769	521,106
Total Operating Expenses	26,242,036	1,317,350
Operating Income	192,462	277,950
Nonoperating revenue (expenses)	(50,099)	(217,734)
Capital contributions/other, net	-	-
Change in Net Assets	142,363	60,216
Net Assets at Beginning of Period	13,343,729	729,425
Net Assets at End of Period	$ 13,486,092	$ 789,641

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE Q--COMBINED, CONDENSED FINANCIAL INFORMATION - Continued

	ContinuCare HealthServices, Inc.	*Cyberknife of Chattanooga, LLC*
As of June 30, 2011		
Due from other governments	$ 214,572	$ 81,700
Other current assets	8,999,195	979,552
Total Current Assets	9,213,767	1,061,252
Net property, plant and equipment	1,690,695	5,197,015
Other assets	4,056,619	81,472
Total Assets	$ 14,961,081	$ 6,339,739
Due to other governments	$ 177,284	$ 350,277
Other current liabilities	1,440,068	843,370
Total Current Liabilities	1,617,352	1,193,647
Long-term debt and capital lease obligations	-	4,416,667
Total Liabilities	1,617,352	5,610,314
Net assets		
Unrestricted	11,653,034	367,605
Invested in capital assets, net of related debt	1,690,695	361,820
Total Net Assets	13,343,729	729,425
Total Liabilities and Net Assets	$ 14,961,081	$ 6,339,739
Period Ended June 30, 2011		
Net patient and operating revenue	$ 25,745,984	$ 223,600
Operating expenses:		
Salaries, wages and benefits	11,946,869	47,081
Supplies and other expenses	12,821,095	57,008
Purchased services	-	375,607
Insurance and taxes	-	19,947
Depreciation	273,257	123,134
Total Operating Expenses	25,041,221	622,777
Operating Income (Loss)	704,763	(399,177)

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2012 and 2011

NOTE Q--COMBINED, CONDENSED FINANCIAL INFORMATION - Continued

	ContinuCare HealthServices, Inc.	*Cyberknife of Chattanooga, LLC*
Nonoperating revenue (expenses)	173,165	(71,398)
Capital contributions/other, net	-	1,200,000
Change in Net Assets	877,928	729,425
Net Assets at Beginning of Period	12,465,801	-
Net Assets at End of Period	$ 13,343,729	$ 729,425

COPY-

SUPPLEMENTAL-1

Erlanger Medical Center

CN1307-027

SUPPLEMENTAL INFORMATION

Chattanooga-Hamilton County Hospital Authority

D / B / A

Erlanger Medical Center

Application For

Positron Emission Tomography / Computed Tomography

Application Number CN1307-027

July 24, 2012

ERLANGER HEALTH SYSTEM
Chattanooga, Tennessee

SUPPLEMENTAL

Supplemental Responses To Questions Of The Tennessee Health Services & Development Agency

1.) Section A, Item 9. (Bed Complement Chart)

The applicant indicates that Erlanger Medical Center is licensed for 567 acute hospital beds. According to Erlanger's 2012 Joint Annual Report it is licensed for 690 beds and staffs 491 beds. Please address this discrepancy.

Response

Erlanger Health System has a total complement of 788 licensed beds (TDOH License No. 0000000140) in Hamilton County, Tennessee, as follows.

	Campus	Lic. Beds
Erlanger Medical Center	Main	567
Children's Hosp @ Erlanger	Main	121
Erlanger East Hospital	East	43
Erlanger North Hospital	North	57

Children's @ Erlanger is located on the Main campus along with the adult hospital, *Erlanger Medical Center*. *Erlanger East* and *Erlanger North* are licensed and operated as satellite hospitals of *Erlanger Medical Center*. The bed complement chart contained in the application was only for *Erlanger Medical Center*. An updated bed complement chart is attached to this supplemental information request which shows the total licensed bed complement for Hamilton County, Tennessee.

Concerning the number of staffed beds, in the early 1990's *Erlanger Medical Center* implemented a program of converting semi-private rooms to private rooms for patient privacy and convenience. This was part of a general industry trend at that time. Staffed beds may be equal to or less than available beds given *Erlanger's* inpatient census.

2.) Section B, Project Description, Item I.A. (Square Footage & Cost Per SF Chart)

SUPPLEMENTAL

The applicant has stated that the renovation costs will be $ 529,698; however, the Square Footage Chart indicates that the renovation cost will be $ 3,189,702.84. A letter from Erlanger's Architect / Planner also confirms that the cost to renovate 1,858 square feet is $ 3,189,709 or $ 1,716.74 per SF. Please address this discrepancy.

Response

The difference in the amounts of $ 3,189,702.84 and $ 3,189,709 is simply an issue with rounding. The actual construction cost is $ 529,698. The value of $ 3,189,709 includes the cost of the PET/CT scanner and miscellaneous items such as furniture, fixtures and equipment. A letter from our Architect is attached explaining this difference and also stating that the construction cost exclusive of the device and other items is $ 529,698.

3.) Section B, Project Description, Item II.C.

In determining the PET/CT use rate did the applicant consider the population in service area counties in surrounding states and the inventory of PET/CT Scanners located in those counties ?

Response

The Georgia Dept. of Community Health does not make PET utilization data readily available online. For this reason we have not included the North Georgia counties in the defined service area. Please note that we believe we would find a similar situation of unmet need and under utilization as currently exists in the defined service area in southeast Tennessee.

We expect that patient origin from this geography will utilize our PET/CT scanner. However, while patients migrate for PET services from out of state, the utility of this information is somewhat diminished without having the patient origin data associated with it.

4.) Section B, Project Description, Item II.E.1b.

SUPPLEMENTAL

What is the proposed schedule of operations for the PET/CT Scanner ?

Response

The proposed hours of operation will be Monday through Friday, 7:00 a.m. - 5:00 p.m.

5.) Section B, Project Description, Item IV.

What other services are provided in the Medical Mall ?

How will the PET/CT Scanner be integrated with other neuroscience and oncology services provided by the applicant ?

Response

The *Erlanger Medical Mall* is integral to *Erlanger Medical Center* along with *Children's Hospital @ Erlanger.* On the main campus of *Erlanger Health System*. The *Medical Mall* currently offers full service imaging which includes Computed Tomography (CT), Ultrasound, Nuclear Medicine, Mammography, General Radiology and X-Ray services. Conveniently close to imaging services is *PLAZA* Ambulatory Surgery, Outpatient Testing and the Outpatient Registration area for *Erlanger's* Main campus.

Clinical pathways for neuroscience and oncology patients will detail indications for use of the PET scanner as a diagnostic tool and in ongoing patient management. We will monitor use of the scanner as part of our balanced scorecard to identify the percentage of patients who fall within or outside guidelines, adjusting the clinical pathways as clinically appropriate. Targets will be established to assess effectiveness of the clinical pathway for each service.

While the PET/CT scanner will be available to all service lines, a focus will be on Neuroscience and Oncology. Through it's affiliation with the University of Tennessee - College of Medicine, Erlanger participates in medical research as well as clinical care. Images and result reports for PET/CT exams will be stored directly in the Picture Archival Computer System ("PACS") and available

SUPPLEMENTAL

for immediate review by the medical researcher and/or referring physician.

6.) Section C, Need, Item 1 (Specific Criteria For PET Services - Item 1)

When does the applicant expect to attain the minimum procedure volume of 1,600 procedures ?

In the applicant's second methodology is it being assumed that every new case and existing case of the conditions listed will require a PET scan annually ? Is this a realistic assumption ?

Response

Concerning the second methodology, the detail calculations are attached to this supplemental information. We are not assuming that every new case and existing case will require a PET scan. Following is a table which outlines our estimate of the service area need, showing the percentage of cases for incidence and prevalence that we estimate. Incidence is the number of new cases of a disease and prevalence is the number of existing cases of a disease. For example, for some disease conditions we only included those age 65 and over while some portion of the entire population may actually need this service.

	=== Service Area ==== === Est. Annual =====		= Estimated PET Scan = === Need In Market ===			= Estimated PET Scan = == Utilization Rate ====	
Condition / Disease State	Incidence	Prevalence	Incidence	Prevalence	Total	Incidence	Prevalence
Epilepsy	299	5,519	299	440	739	100.0%	8.0%
Parkinson's	1,422	1,873	54	149	203	3.8%	8.0%
Huntington's	44	63	44	5	49	100.0%	7.9%
Alzheimer's	98	1,502	98	120	218	100.0%	8.0%
Lung Cancer	592	531	592	43	635	100.0%	8.1%
Cancer - All Other	193	2,789	193	222	415	100.0%	8.0%
Cardiac	1,422	18,583	106	1,485	1,591	7.5%	8.0%
Total	4,070	30,860	1,386	2,464	3,850	34.1%	8.0%

Concerning when the PET/CT scanner will reach 1,600 procedures, following is a table which outlines the estimate of our PET scanner utilization.

SUPPLEMENTAL

Condition / Disease State	= Estimated PET Scan = === Need In Market === Incidence	Prevalence	Total	=== Est. PET/CT Scanner Utilization === Year 1	Year 2	Year 3	Year 4
Epilepsy	299	440	739	300	575	592	610
Parkinson's	54	149	203	49	49	50	52
Huntington's	44	5	49	12	12	12	12
Alzheimer's	98	120	218	60	60	62	64
Lung Cancer	592	43	635	152	152	157	162
Cancer - All Other	193	222	415	100	100	103	106
Cardiac	106	1,485	1,591	382	382	393	405
							0
PET - Out Of Area						235	242
Total	1,386	2,464	3,850	1,055	1,330	1,604	1,653

7.) Section C, Need, Item 1 (Specific Criteria For PET Services - Item 3)

Based on the minimum utilization standard of 1,600 PET procedures annually, it appears that all existing PET/CT units in the service area are under utilized and have available capacity. Has the applicant actively pursued a sharing arrangement with an existing PET provider in the service area allowing Erlanger's patient population to have access to PET/CT services without adding another PET/CT Scanner to the service area ?

Please note that the applicant has not included the utilization of PET providers in Bradley and Rhea County. Please update all applicable charts in the application to reflect these providers' inventory and utilization ?

Response

As an academic medical center, with teaching faculty and deep clinical expertise, *Erlanger* receives referrals from a large number of hospitals located in four states, including Tennessee, Georgia, North Carolina and Alabama. These hospitals rely on the clinical skills of our physicians to provide needed care. Many of these physicians also conduct clinical trials where diagnostic capabilities are needed in support of patient care and medical research. While we currently refer patients to other providers for PET scans; use of these units delays and impairs the efficacy of care provided.

SUPPLEMENTAL

Having patients go from one site to another also negatively impacts the continuity of care for the patient. Challenges arise as existing PET providers do not serve the same patient population as served by *Erlanger*. Because *Erlanger* draws from a much larger geography than other providers, serves a different patient population and provides services not offered by these providers, it is expected that the PET scanner at *Erlanger* will have a negligible impact on the PET utilization at other sites.

To the contrary, it is expected that given recent changes in Medicare (copies of two (2) articles are attached to this supplemental information), use of PET technology for tracking the progression of tumors, will significantly increase in the near term to levels consistent with minimum utilization standards. Also, accepted new uses for PET technology, such as in progressive prostate disease, will increase current utilization levels. With the recent recognition of the efficacy of PET/CT technology in the diagnosis and treatment of cancer and prostate disease by the *Centers For Medicare & Medicaid Services*, we may see adoption of PET/CT technology to parallel past trends in both CT and MRI use.

Pertaining to the reimbursement changes by Medicare with respect to PET services, of interest is …

> "We appreciate the fact that CMS has changed the limit from one scan to three," Society Of Nuclear Medicine & Molecular Imaging 2013-2014 vice-president elect, Hossein Jadvar, MD, PhD, MPH, MBA, FACNM, said in a statement. "However, it will be important for the local contractors to allow more than three when clinically necessary."

With respect to the mobile units in Bradley County and Rhea County were not included in the inventory of PET units in the service area. Following is a revised table which calculates the disparity in use rates for the service area and for Tennessee.

SUPPLEMENTAL

	===== CY 2012 =====		===== CY 2011 =====		===== CY 2010 =====	
	No. Of PET Units	Total Scans	No. Of PET Units	Total Scans	No. Of PET Units	Total Scans
Population - Tennessee		6,439,884		6,387,600		6,335,316
Totals - Tennessee	31.9	35,291	33.8	36,460	34.0	37,763
Mean Avg. - Per Capita	0.00000529	0.00570793	0.00000529	0.00570793	0.00000537	0.00596071
Population - Svc Area		624,379		620,231		616,083
Totals - Svc Area	3.7	3,221	3.7	3,221	3.7	3,428
Mean Avg. - Per Capita	0.00000593	0.00515873	0.00000597	0.00519323	0.00000601	0.00556419
Use Rate Disparity - Per Capita		-0.00054921		-0.00051471		-0.00039653
Use Rate Disparity - %		-9.6%		-9.0%		-6.7%

Further, a revised table which highlights our estimate of service area unmet need and/or under utilization appears below.

Condition / Disease State	= Estimated PET Scan = === Need In Market === Incidence	Prevalence	Total
Epilepsy	299	440	739
Parkinson's	54	149	203
Huntington's	44	5	49
Alzheimer's	98	120	218
Lung Cancer	592	43	635
Cancer - All Other	193	222	415
Cardiac	106	1,485	1,591
Total	1,386	2,464	3,850

Hospital	No. PET Units	PET Volume 2012
Memorial Hospital	1.0	720
Diagnostic PET/CT	1.0	1,179
Chattanooga Imaging - East	1.0	527
Cleveland Radiology Assoc.	0.6	398
Cleveland Radiology - Rhea Med. Ctr.	0.1	43
Total	3.7	2,867

8.) Section C, Need, Item 1 (Specific Criteria For PET Services - Item 6.e.)

Is Dr. Jacob currently an active member of Erlanger's medical staff ?

Please indicate if the proposed project will have an on-site cyclotron. If the proposed PET facility does not have an on-site cyclotron, please provide an draft written contract or agreement that a reliable supply of radiopharmaceuticals will be available to the proposed PET facility for the proposed uses. Please indicate if the cost of radiopharmaceuticals were factored in the Projected Data Chart.

Response

Dr. Jacob is an active member of Erlanger's medical staff.

There will not be a cyclotron on-site. A copy of the contract with Triad Isotopes, Inc., is attached to this supplemental information.

The cost of the radiopharmaceuticals has been included in the *Projected Data Chart* as an operating expense.

9.) Section C, Need, Item 4.A.

Your response to this item is noted. Using population projection data (based on the 2010 U.S. Census) from the Department of Health, enrollee data from the Bureau of TennCare, and demographic information from the U.S. Census Bureau, please complete the following table and include data for each county in your proposed service area.

Variable	*County 1*	*County 2*	*County 3*	*Service Area*	*Tennessee*
Current Year (CY), Age 65+					
Projected Year (PY), Age 65+					
Age 65+, % Change					
Age 65+, % Total (PY)					
CY, Total Population					
PY, Total Population					
Total Pop. % Change					
TennCare Enrollees					
TennCare Enrollees as a % of Total Population					
Median Age					
Median Household Income					
Population % Below Poverty Level					

Response

The requested demographic information appears below.

SUPPLEMENTAL

	Hamilton	Bradley	Marion	Grundy	Sequatchie	Bledsoe
Current Year (CY), Age 65 +	50,685	14,449	4,206	2,268	2,228	1,845
Projected Year (PY), Age 65+	58,693	17,106	4,918	2,461	2,772	2,179
Age 65+, % Change	15.8%	18.4%	16.9%	8.5%	24.4%	18.1%
Age 65+, % Total (PY)	16.6%	16.3%	17.3%	18.4%	17.7%	16.6%
Total Population - CY	340,756	100,488	28,297	13,603	14,521	12,932
Total Population - PY	352,830	104,731	28,486	13,345	15,652	13,096
Total Population - % Change	3.5%	4.2%	0.7%	-1.9%	7.8%	1.3%
TennCare Enrollees	13,107	17,833	6,126	4,406	3,290	2,831
TennCare Enrollees As % Of Total Pop.	3.8%	17.7%	21.6%	32.4%	22.7%	21.9%
Median Age	39.3	38.2	42.3	41.4	40.6	42.3
Median Household Income	45,826	40,541	39,857	25,890	33,536	35,137
Population % Below Poverty Level	15.9%	16.9%	17.8%	30.6%	18.0%	21.0%

	Rhea	Meigs	McMinn	Polk	Svc. Area	Tennessee
Current Year (CY), Age 65 +	4,985	1,739	8,482	2,970	93,857	857,638
Projected Year (PY), Age 65+	5,886	2,116	9,882	3,401	109,414	1,009,537
Age 65+, % Change	18.1%	21.7%	16.5%	14.5%	16.6%	17.7%
Age 65+, % Total (PY)	17.5%	17.3%	18.3%	19.7%	17.0%	15.1%
Total Population - CY	32,263	11,880	52,697	16,942	624,379	6,439,884
Total Population - PY	33,539	12,227	53,922	17,289	645,117	6,701,303
Total Population - % Change	4.0%	2.9%	2.3%	2.0%	3.3%	4.1%
TennCare Enrollees	7,788	2,586	10,333	3,468	71,768	1,192,483
TennCare Enrollees As % Of Total Pop.	24.1%	21.8%	19.6%	20.5%	11.5%	18.5%
Median Age	39.8	42.9	41.6	42.5	41.1	37.7
Median Household Income	36,934	34,942	38,604	36,204	36,747	43,983
Population % Below Poverty Level	20.3%	23.6%	18.3%	17.6%	20.0%	16.9%

10.) Section C, Need, Item 5

Your response to this item is noted. Using information from the HSDA Equipment Registry on the HSDA website, please provide three year utilization trends (2010-2012) of all PET/CT providers in the primary and secondary service area.

Provider	2010	2011	2012	2010-2012 % Change
Cleveland Radiology Associates				
Chattanooga Imaging East				
Diagnostic PRT/CT of Chattanooga				
Memorial Hospital				
Cleveland Radiology Associates/Rhea Medical Center				

SUPPLEMENTAL

TOTAL				

Response

The PET utilization trend for the service area and the State of Tennessee appears below.

Provider	2010	2011	2012	% Change 2010 - 2012
Chattanooga Imaging East	619	519	527	-14.9%
Diagnostic PET/CT of Chattanooga	1,331	1,225	1,179	-11.4%
Memorial Hospital	941	904	720	-23.5%
Cleveland Radiology Associates	537	530	398	-25.9%
Cleveland Radiology - Rhea Med Ctr	46	43	43	-6.5%
Total - Service Area	3,474	3,221	2,867	-17.5%
State of Tennessee	37,763	36,460	35,291	-6.5%

As may be seen, the trend for the service area is decreased by 17.5% whereas the trend for the State of Tennessee is decreased by only 6.5%. This disparity in utilization represents a significant unmet need within the service area.

Given that *Erlanger* serves a different patient population than other PET providers in the service area, along with the demonstrated unmet need and under utilization and the change in reimbursement policy by *CMS*; the negative utilization trends for PET will not continue.

11.) Section C, Need, Item 6.

Your response is noted. Please provide the projected utilization for the proposed PET/CT scanner with the rationale on how the level of utilization projected was determined.

Response

Following is a table which outlines our estimate of the service area need, it shows the percentage of cases for incidence and prevalence that we estimate. It should be noted that we have been conservative in our estimates. For example, for some disease conditions we only included those age 65 and over while some portion of the entire population may actually need this service.

SUPPLEMENTAL

Condition / Disease State	=== Service Area ==== === Est. Annual ===== Incidence	Prevalence	= Estimated PET Scan = === Need In Market === Incidence	Prevalence	Total	= Estimated PET Scan = == Utilization Rate ==== Incidence	Prevalence
Epilepsy	299	5,519	299	440	739	100.0%	8.0%
Parkinson's	1,422	1,873	54	149	203	3.8%	8.0%
Huntington's	44	63	44	5	49	100.0%	7.9%
Alzheimer's	98	1,502	98	120	218	100.0%	8.0%
Lung Cancer	592	531	592	43	635	100.0%	8.1%
Cancer - All Other	193	2,789	193	222	415	100.0%	8.0%
Cardiac	1,422	18,583	106	1,485	1,591	7.5%	8.0%
Total	4,070	30,860	1,386	2,464	3,850	34.1%	8.0%

Concerning when our PET/CT scanner will reach 1,600 procedures, following is a table which outlines the estimate of our PET scanner utilization.

Condition / Disease State	= Estimated PET Scan = === Need In Market === Incidence	Prevalence	Total	=== Est. PET/CT Scanner Utilization === Year 1	Year 2	Year 3	Year 4
Epilepsy	299	440	739	300	575	592	610
Parkinson's	54	149	203	49	49	50	52
Huntington's	44	5	49	12	12	12	12
Alzheimer's	98	120	218	60	60	62	64
Lung Cancer	592	43	635	152	152	157	162
Cancer - All Other	193	222	415	100	100	103	106
Cardiac	106	1,485	1,591	382	382	393	405
							0
PET - Out Of Area						235	242
Total	1,386	2,464	3,850	1,055	1,330	1,604	1,653

12.) Section C, Economic Feasibility, Item 1. (Project Cost Chart).

From whom is the applicant leasing space ? Does the applicant have a fully executed Option To Lease, or, Lease Agreement ?

The applicant indicates that the fixed equipment cost for this project is $ 3,324,276; however, when calculating the equipment vendor's quote, the total is $ 5,406,189.25 ($ 2,216,85 for PET/CT, 60 month maintenance of $ 3,171,854.40 or $ 512,864.24 x 60 months, and $ 18,011 for Protection POS).

Please address this discrepancy.

Response

Applicant currently owns the space in which the PET/CT unit will be located. Therefore, no lease is required.

The total of $ 3,324,276 was derived as follows.

Cost of PET/CT Scanner	$ 2,216,324
Maintenance Cost (5 Year)	1,107,952
Total	$ 3,324,276

The manufacturer's representative has indicated that the $52,864.24 represents a monthly amount that includes equipment lease and service expense, if *Erlanger* were to choose that option.

Equipment (FMV for 60 months)	$ 38,455.44
Service	14,408.80
($ 216,132 X 4 years equals $864,528.00 divided by 60 months)	
Total	$ 52,864.24

The service portion of the amount is fixed and is not encumbered with an interest or finance charge. In order to provide for balanced payments, the service contract is a 48 month agreement that is spread over 60 months.

13.) Section C, Economic Feasibility, Item 3.

Please compare the construction cost per square foot to the Cost Range Chart for Hospitals found in the Applicant's Toolbox section of the HSDA website.

Response

Construction cost for clinically related space of 1,858 SF, totals $ 529,688, with a cost per square foot of $ 285.09. This is reasonable in light of other hospital projects noted below with cost per SF of in the range of $ 250 - $ 265 per SF.

Project	Project No.	Cost Per SF
Methodist University Hosp	CN0911-055	$ 265.00
Morristown-Hamblen Hospital	CN1009-040	$ 250.00

The cost per SF of $ 285.09 is slightly higher than the 3rd quartile of $ 249 for hospital based construction

SUPPLEMENTAL

projects, as calculated by HSDA. This may be due to the strengthening of structural supports which is needed in the *Medical Mall* to accommodate the weight of the PET/CT scanner.

14.) Section C, Economic Feasibility, Item 4. (Historical Data Chart)

The applicant reports net operating losses in excess of $ 12M in Years 2010 and 2011, and losses in excess of $ 26M in 2012. Please discuss how these results will impact on the financial viability of the proposed project.

Please complete the following chart for Other Expenses:

HISTORICAL DATA CHART - OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year____	Year___	Year_____
1.	$_____	$_____	$_____
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____
7.	_____	_____	_____
Total Other Expenses	$_____	$_____	$_____

Response

The *Historical Data Chart* adopted by *HSDA* combines the *Income Statement* with elements of the *Statement of Cash Flow*. It takes the *Net Operating Income* and adds to that the *Capital Expenditures* to arrive at the financial bottom line for an organization. Please note the *Income Statement* includes depreciation and amortization which are simply Accounting entries and not truly reflective of cash flow. While we have followed the form prescribed by *HSDA*, the depreciation should be excluded from the calculation, as follows.

SUPPLEMENTAL

	2012	2011	2010
Net Operating Income/(Loss)	-26,760,089	-12,014,326	-12,419,410
Less: Depreciation	26,569,378	25,799,614	26,945,792
Adj. (Modified) Cash Flow Calculation	-190,711	13,785,288	14,526,382

The chart for Other Expenses has been completed and appears below.

Erlanger Health System

	2012	2011	2010
Advertising	2,198,138	2,384,172	2,442,856
Computer Services	4,501,692	3,864,443	3,827,840
Consulting	1,668,100	1,127,078	1,778,526
Contracted Services	15,797,297	11,477,114	9,044,580
Drugs	32,551,755	36,189,380	37,751,842
Equipment Rental	3,246,154	2,552,581	1,454,883
Insurance	4,381,968	3,340,749	3,796,197
Lab Outside Fees	3,709,926	3,456,266	3,101,010
Licenses & Fees	1,175,538	1,448,606	1,030,035
Membership & Dues	1,398,184	1,055,383	1,121,495
Physician Fees	20,113,740	20,272,910	19,855,597
Professional Education	1,059,982	998,735	1,194,375
Purchased Maint	3,908,269	3,619,856	3,677,110
Purchased Services	30,766,341	27,736,456	23,281,460
Time & Mat Contract	3,659,430	3,533,283	3,216,385
Unscheduled Maint	3,374,335	3,134,217	3,048,532
Utilities	9,758,388	9,557,545	8,858,468
Other	6,756,708	4,409,113	5,085,990
Total	150,025,944	140,157,885	133,567,181

15.) Section C, Economic Feasibility, Item 4. (Projected Data Chart)

The applicant has a line item for lease expense for space in the Project Cost Chart but no rent in the Projected Data Chart. Please explain.

Will the applicant be paying Dr. Jacob wages or salary ? If yes, this should be included in the Projected Data Chart.

Please complete the following chart for Other Expenses:

PROJECTED DATA CHART - OTHER EXPENSES

SUPPLEMENTAL

OTHER EXPENSES CATEGORIES	Year____	Year___	Year_____
1.	$_____	$_____	$_____
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____
7.	_____	_____	_____
Total Other Expenses	$_____	$_____	$_____

Response

Applicant currently owns the space in which the PET/CT scanner will be located, therefore, no rent appears in the *Projected Data Chart*. Rent expense was included in the Project Cost Chart due to an *HSDA* rule which suggests that fair market value should be included for space related to a project. However, in discussion with Mr. Farber he indicated that this was only applicable if the applicant is "acquiring" the space for a project, not if the applicant already owns the space. For this reason, in discussion with Mr. Farber, a revised *Project Cost Chart* is attached to this supplemental information.

Dr. Jacob is not an employee of *Erlanger Medical Center*. Erlanger has a professional service contract for Radiological services which covers all Imaging modalities, including PET. Therefore, no additional cost is attributable to this project for the medical director of the PET service.

The detail of Other Expenses for the PET/CT project is below.

	Year 1	Year 2
Isotope Injection Material	131,875	175,385
Service Contracts	15,100	272,713
EHS Overhead Allocation	40,376	86,414
Total	187,351	534,512

16.) Section C, Economic Feasibility, Item 5.

Using data from the HSDA Equipment Registry compare

SUPPLEMENTAL

the applicant's projected gross charge per procedure for the project's first year to the 2012 average gross charge per procedure for each of the existing PET providers in the service area.

Response

Following is a table which outlines the average gross charge of each PET scan provider in the service area. *Erlanger's* projected gross charge for PET is $ 5,280 and is comparable to that of *Memorial Hospital*.

Provider	2011	2012	=== Gross Charges === 2011	2012	=== Avg. Charge === 2011	2012
Chattanooga Imaging East	519	527	1,968,690	-	3,793	-
Diagnostic PET/CT of Chattanooga	1,225	1,179	3,182,494	3,246,890	2,598	2,754
Memorial Hospital	904	720	4,643,172	3,812,313	5,136	5,295
Cleveland Radiology Associates	530	398	-	-	-	-
Cleveland Radiology - Rhea Med Ctr	43	43	-	-	-	-
Total - Service Area	3,221	2,867				

17.) Section C, Economic Feasibility, Item 6.A. and 6.B.

Your response to this item is noted. Please revise your response to be specific to the charges associated with the proposed project.

Response

Following is a table which outlines the average gross charge of each PET scan provider in the service area. *Erlanger's* projected gross charge for PET is $ 5,280 and is comparable to that of *Memorial Hospital*.

Provider	2011	2012	=== Gross Charges === 2011	2012	=== Avg. Charge === 2011	2012
Chattanooga Imaging East	519	527	1,968,690	-	3,793	-
Diagnostic PET/CT of Chattanooga	1,225	1,179	3,182,494	3,246,890	2,598	2,754
Memorial Hospital	904	720	4,643,172	3,812,313	5,136	5,295
Cleveland Radiology Associates	530	398	-	-	-	-
Cleveland Radiology - Rhea Med Ctr	43	43	-	-	-	-
Total - Service Area	3,221	2,867				

18.) Section C, Economic Feasibility, Item 7 and 8.

Your response to this item is noted. Please revise your response to be specific to the charges associated

with the proposed project.

Response

Following is a table which outlines the average gross charge of each PET scan provider in the service area. *Erlanger's* projected gross charge for PET is $ 5,280 and is comparable to that of *Memorial Hospital.*

Provider	2011	2012	=== Gross Charges === 2011	2012	=== Avg. Charge === 2011	2012
Chattanooga Imaging East	519	527	1,968,690	-	3,793	-
Diagnostic PET/CT of Chattanooga	1,225	1,179	3,182,494	3,246,890	2,598	2,754
Memorial Hospital	904	720	4,643,172	3,812,313	5,136	5,295
Cleveland Radiology Associates	530	398	-	-	-	-
Cleveland Radiology - Rhea Med Ctr	43	43	-	-	-	-
Total - Service Area	3,221	2,867				

As may be seen from the *Projected Data Chart* that was submitted, the project will be financially viable in Year 1.

19.) Section C, Economic Feasibility, Item 9.

Your response is noted. Please complete the following chart.

Column 1	Column 2	Column 3	Column 4	Column 5 (1)	Column 6	Column 7 (2)
Service Area PET/CT	County	Total Gross Revenue	Medicare Gross Revenue	Medicare as a % of Total	TennCare/ Medicaid Gross Revenue	TennCare/ Medicaid as a % of Total
PET/CT #1						
PET/CT #2						
Etc.						
TOTAL						
Applicant Year #1						

(1) Column 5 = Column 4/Column 3
(2) Column 7 = Column 6/Column 3

Response

Following is the requested payor mix information.

SUPPLEMENTAL

County	Provider	Year	Equip. Type	Total Rev.	Medicare Rev.	Medicare % Of Total	TennCare / Medicaid	TennCare % Of Total
Hamilton	Chattanooga Imaging East	519	PET	1,968,690	972,800	49.4%	140,600	7.1%
Hamilton	Diagnostic PET/CT of Chattanooga	1,225	PET	3,182,494	1,812,260	56.9%	209,750	6.6%
Hamilton	Memorial Hospital	904	PET	4,643,172	2,647,714	57.0%	150,539	3.2%
	Erlanger Medical Center (Year 1)			5,570,607	2,787,944	50.0%	781,469	14.0%

20.) Section C, Contribution To Orderly Development, Item 3.

What type(s) of positions will the 1.5 FTE's comprise (e.g.-RN, radiological tech., etc.) ?

Response

The positions will be licensed Radiologic Technologists ("RT") with professional certification as a Certified Nuclear Medicine Technologist ("CNMT").

SUPPLEMENTAL

2013 JUL 26 AM 8 57

AFFIDAVIT

STATE OF TENNESSEE |
|
COUNTY OF HAMILTON |

NAME OF FACILITY Erlanger Medical Center

I, Joseph M. Winick, after first being duly sworn, State under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

SIGNATURE

SWORN to and subscribed before me this 24th of July (Month), 2013 (Year), a Notary Public in and for the State of Tennessee, County of Hamilton.

Ruth Anne Bell
NOTARY PUBLIC

My commission expires Sept. 17 (Month / Day), 2014.

RUTH ANNE BELL
STATE OF TENNESSEE
NOTARY PUBLIC
HAMILTON COUNTY

SUPPLEMENTAL

TABLE OF ATTACHMENTS

SUPPLEMENTAL

** NOTE - The attachments are paginated and the page number begins with "A". The page number appears in the upper right hand corner of the page.

ATTACHMENTS

Bed Complement Chart

		Licensed Beds	*(*) CON Beds*	*Staffed Beds*	*Beds Proposed*	*TOTAL Beds at Completion*
A.	Medical	284				284
B.	Surgical	226				226
C.	Long-Term Care Hospital					
D.	Obstetrical	65				65
E.	ICU / CCU	94				94
F.	Neonatal	58				58
G.	Pediatric	49				49
H.	Adult Psychiatric					
I.	Geriatric Psychiatric	12				12
J.	Child / Adolescent Psychiatric					
K.	Rehabilitation					
L.	Nursing Facility (non – Medicaid Certified)					
M.	Nursing Facility Level 1 (Medicaid only)					
N.	Nursing Facility Level 2 (Medicare only)					
O.	Nursing Facility Level 2 (dually certified Medicaid / Medicare)					
P.	ICF / MR					
Q.	Adult Chemical Dependency					
R.	Child and Adolescent Chemical Dependency					
S.	Swing Beds					
T.	Mental Health Residential Treatment					
U.	Residential Hospice					
	TOTAL	788				788

(*) CON Beds approved but not yet in service.

EHS -- Calculation Of Incidence And Prevalence
For Disease Conditions Which May Require PET Scans

Condition / Disease State	Estimate Of Incidence & Prevalence	Data Source
Epilepsy	U.S. Incidence Rate = (150,000 / 313,095,504) = .000479 Svc. Area Incidence = (624,379 x .0088398) = 299	Centers For Disease Control www.cdc.gov/epilepsy/basics/fast_facts.htm
	U.S. Prevalence Rate = (2,767,711 / 313,095,504) = .0088398 Svc. Area Prevalence = (624,379 x .0088398) = 5,519	
Cardiac	U.S. Incidence Rate = (610,000 / 40,250,504) = .015155 Svc. Area Incidence = (93,587 x .015155) = 1,422	www.letstalknutrition.com
	Prevalence Rate For Age 65+ = 19.8% Svc. Area Prevalence = (93,857 x 19.8%) = 18,583	Centers For Disease Control www.cdc.gov/mmwr/preview/mmwrhtml/mm6040a1.htm
Alzheimer's	Incidence Expressed In Terms Of New Cases Per Person Years Svc. Area Population Age 65+ = 93,857 Est. Life Expectancy = 77.5 Years Est. Incidence Age 65 - 77.5 = 18 Est. Incidence Age 77.5 - 82 = 4 Svc. Area Incidence Person Years = (93,587 x 60) = 5,631,420 ~ (56) Svc. Area Incidence = (56 x 22) = 1,232 Svc. Area Incidence = (1,232 / (77.5-65)) = 98 new cases per year	Wikipedia www.wikipedia.org/wiki/Alzheimer%27s_disease
	U.S. Prevalence Rate For Age 65+ = 1.6% Svc. Area Prevalence = (93,857 x 1.6%) = 1,502	
Lung Cancer	Svc. Area Population 55-74 = (624,379 x 21%) = 131,119 Svc. Area Smoking 55-74 = (131,119 x 22%) = 28,846 Svc. Area Positive Screen 55-74 = (28,846 x 27.3%) = 7,874 Svc. Area Imaging Follow-Up 55-74 = (7,874 x 73%) = 5,748 Svc. Area PET Follow-Up 55-74 = (5,748 x 10.3%) = 592 new cases per year	
	Tennessee Prevalence Rate = 81 Cases Per 100,000 Svc. Area Prevalence = (6.24379 x 81) = 506 cases ** Svc. Area Prevalence Estimate = 531 cases	Tennessee Chronic Disease Profile - December, 2011
Cancer -- All Other	Svc. Area Incidence = (412.8 x 6.24) = 2,576 Svc. Area PET Incidence = (2,576 x 7.5%) = 193	

EHS -- Calculation Of Incidence And Prevalence
For Disease Conditions Which May Require PET Scans

Condition / Disease State	Estimate Of Incidence & Prevalence	Data Source
	Svc. Area Prevalence = 2,789	
Parkinson's	Incidence Expressed In Terms Of New Cases Per Person Years Svc. Area Population Age 65+ = 93,857 Est. Life Expectancy = 77.5 Years Est. Incidence = 12 Cases Per 100,000 Person Years) Est. Incidence Age 77.5 - 82 = 4 Svc. Area Incidence Person Years = (93,587 x 60) x (12 Cases / 100,000 Years) Svc. Area Incidence = (56 x 12) = 672 Svc. Area Incidence = (672 / (77.5-65)) = 54 new cases per year	http://neurology-thelancet.com; Vol. 5; June, 2006; p. 526
	Svc. Area Prevalence = (624,379 x .3%) = 1,873	
Huntington's	Svc. Area Incidence = (70 Per Million Pop.) = 44 cases	www.wikipedia.org/wiki/Huntington%27s_disease
	Svc. Area Prevalence = (10 Cases Per 100,000 x 6.24) = 63 cases	

SUPPLEMENTAL

erlanger

July 24, 2013

To: **Ms. Melanie Hill, Executive Director**
Health Services and Development Agency
State of Tennessee
161 Rosa L. Parks Blvd.
Nashville, TN 37243

Re: **Verification of the CON Budget Summary**
Erlanger Baroness Campus
Medical Mall Radiology Department
PET Scan Equipment Installation
975 East Third Street
Chattanooga, TN 37403

Dear Ms. Hill,

We have received your comment to our CON Submission package regarding the planning and construction scope of the project. Below you will find a comprehensive definition of the costs in question for the EHS PET Scan project.

The projected *renovation* cost of $529,698.00 is for all of the items related to facilities upgrades, including electrical, mechanical, plumbing, shielding, new wall construction, doors, new flooring, wall finishes, and ceiling materials. To summarize, any and all materials and labor which will have an affect on the built environment.

The projected *project* cost of $3,189,709.00 is for all of the items related to the PET Scan Equipment Installation project, including the $529,698.00 for facilities upgrades, architect and engineers fees, PET Scan Equipment costs, all new FFE (furniture, fixtures, equipment) required, EHS planning and coordination, all new IT items and installation, Clinical Engineering equipment and installation, and EHS related general items. Each of these items has their own projected budget and is included along with the facilities upgrades costs in the total projected project costs.

We hope this explanation provides you with a better understanding of the project costs and how we arrived at our conclusions. If you have any further questions or comments please feel free to contact me at 423-778 6510(of), or 423-298-3950 (c).

Sincerely,

Chuck Arnold, Architect/Planner
Erlanger Health System
TN License 102349

DiagnosticImaging

Published on *Diagnostic Imaging* (http://www.diagnosticimaging.com)

CMS to Cover Three Oncology FDG-PET Scans

News [1] | June 12, 2013 | Molecular Imaging [2], Nuclear Imaging [3]
By Diagnostic Imaging Staff [4]
CMS has agreed to cover three oncology FDG-PET scans, a revision from the proposed single-scan coverage, and one PET advocates lauded.
Source:

CMS has agreed to cover three oncology FDG-PET scans, a revision from the proposed single-scan coverage, and one PET advocates lauded.

In a decision memo released this week, CMS said it was ending the requirement for coverage with evidence development for oncologic FDG-PET. This removes the requirement for prospective data collection by the National Oncologic PET Registry (NOPR) for covered cancer types. Coverage of additional scans beyond the three after initial anti-tumor therapy will be determined by local Medicare Administrative Contractors.

The Society of Nuclear Medicine and Molecular Imaging said the decision "will have a significant impact on patient care."

"We appreciate the fact that CMS has changed the limit from one scan to three," SNMMI 2013-2014 vice president-elect, Hossein Jadvar, MD, PhD, MPH, MBA, FACNM, said in a statement. "However, it will be important for the local contractors to allow more than three when clinically necessary."

SNMMI also noted CMS's ruling that the use of FDG PET/CT to guide prostate cancer treatment was reasonable and necessary.

The Medical Imaging and Technology Alliance (MITA) also commended the decision, saying the group has long supported coverage decisions that facilitiate access to PET imaging. "This final decision on FDG-PET for solid tumors is a step in the right direction in ensuring access to critical imaging procedures for patients with cancer," MITA's executive director Gail Rodriquez said in a statement.

Source URL: http://www.diagnosticimaging.com/molecular-imaging/cms-cover-three-oncology-fdg-pet-scans

Links:
[1] http://www.diagnosticimaging.com/news
[2] http://www.diagnosticimaging.com/molecular-imaging
[3] http://www.diagnosticimaging.com/nuclear-imaging
[4] http://www.diagnosticimaging.com/authors/diagnostic-imaging-staff

REGULATORY NEWS

TARGETED FOR LEADERS IN MEDICAL IMAGING

CMS Says Medicare Will Cover Three PET Scans for Anti-Tumor Management

06/17/2013

Coverage with evidence development (CED) will no longer be a requirement for F18 fluorodeoxyglucose p emission tomography (FDG PET) for oncologic indications, ending remaining prospective data collection requirements, under a June 12 Centers for Medicare & Medicaid Services (CMS) final decision memo.

In a change from the proposed decision memo, CMS also decided three FDG PET scans instead of one w be covered by Medicare as an anti-tumor treatment management strategy following initial cancer treatment

Under the proposal, coverage beyond one FDG PET scan would have been determined by local Medicare Administrative Contractors (MACs). In the final memo, CMS said MACs now will determine coverage of an scans beyond three.

According to the memo, "CMS received 175 comments opposing the proposed one scan limitation of cover FDG PET scans used to guide subsequent physician management of anti-tumor treatment strategy after completion of initial anti-tumor treatment strategy." Some of these commenters noted "that 3 scans was a number for patients undergoing second or third line anticancer treatment."

In response, CMS agreed in the final memo that Medicare will "nationally cover at least three additional sca

According to CMS, FDG PET is a minimally invasive diagnostic imaging procedure used to evaluate glucos metabolism in normal tissue as well as in diseased tissues in conditions such as cancer.

COPY-

SUPPLEMENTAL-2

Erlanger Medical Center

CN1307-027

SUPPLEMENTAL INFORMATION (No. 2)

Chattanooga-Hamilton County Hospital Authority

D / B / A

Erlanger Medical Center

Application For

Positron Emission Tomography / Computed Tomography

Application Number CN1307-027

July 26, 2012

ERLANGER HEALTH SYSTEM
Chattanooga, Tennessee

Supplemental Responses To Questions Of The Tennessee Health Services & Development Agency

1.) Section C, Economic Feasibility, Item 1. (Project Cost Chart).

With the elimination of the lease costs the Estimated Project Cost has been reduced from $ 4,530,278 to $ 4,298,028. This reduces the filing fee from $ 10,193 to $ 9,670.56.

Please submit a revised Project Cost Chart reflecting the reduced filing fee. A refund of $ 522.44 will be processed.

Response

A revised *Project Cost Chart* is attached to this supplemental information.

2.) Section C, Economic Feasibility, Item 6.A. and 6.B.

If available, please compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) codes.

Response

The reimbursement for PET services is below.

HCPCS Code	Short Descriptor	Medicare
78459	Heart muscle imaging (PET)	960.94
78491	Heart image (pet) single	960.94
78492	Heart image (pet) multiple	960.94
78608	Brain imaging (PET)	960.94
78811	Pet image ltd area	960.94
78812	Pet image skull-thigh	960.94
78813	Pet image full body	960.94
78814	Pet image w/ct lmtd	960.94
78815	Pet image w/ct skull-thigh	960.94
78816	Pet image w/ct full body	960.94

Erlanger's gross charge will be $ 5,280 and the net charge after contractual adjustment for Medicare patients will be $ 961 and for TennCare patients will be $ 774.

SUPPLEMENTAL

A F F I D A V I T

2013 JUL 29 AM 9 21

STATE OF TENNESSEE |
|
COUNTY OF HAMILTON |

NAME OF FACILITY Erlanger Medical Center

I, Martin S. McKay, after first being duly sworn, State under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Martin S. McKay
SIGNATURE

SWORN to and subscribed before me this 26th of July, 2013, a Notary Public in and for the
Month Year
State of Tennessee, County of Hamilton.

NOTARY PUBLIC

My commission expires 10 21, 2015.
(Month / Day)

Teresa D. Parks
STATE OF TENNESSEE
NOTARY PUBLIC
Hamilton County

CHATTANOOGA IMAGING

Radiology
Fluoroscopy
Diagnostic Ultrasound
Computer Tomography
Bone Mineral Density
Open MRI
MRI High Field

1710 Gunbarrel Road
Chattanooga, Tennessee 37421
(423) 553-1234

Screening Mammography
Diagnostic Mammography
Breast Ultrasound
Nuclear Radiology
Nuclear Cardiology
PET/CT

September 10, 2013

Ms. Melanie Hill
Executive Director
Tennessee Health Services and Development Agency
500 Deaderick Street, Suite 850
Nashville, TN 37243

SEP 11 '13 PM3:45

VIA: Federal Express

Dear Ms. Hill:

Plaza Radiology, LLC d/b/a Chattanooga and Cleveland Imaging, operates four imaging centers in the Chattanooga and Cleveland, TN area and is opposed to the Erlanger Medical Center CON (CON1307 027) for the initiation of PET/CT services in Chattanooga, TN.

SEP 11 '13 PM3:45

Establishment of Need:

The applicant does not meet the need criteria for additional PET/CT services in the Chattanooga and Cleveland market. Chattanooga and Cleveland, TN have five (5) PET/CT scanners that are staffed by expert technologists, supervised by fellowship trained physicians providing interpretations and clinical consultation. The utilization rate of all five scanners has declined over the past several years and the entire patient population in the service area is well served, including the indigent/uninsured patient population.

Erlanger incorrectly claims that those who cannot pay are underserved, when in fact Erlanger contracts with Diagnostic PET/CT of Chattanooga, located less than one half mile from Erlanger's main campus, to provide PET/CT services, on their fixed unit, to indigent patients.

There is no unmet need for PET/CT services for any and all patients in the Chattanooga and Cleveland area. Based on the actual number of PET/CT scans done on the current units in the Chattanooga area alone, there is excess capacity available, in excess of 2,100 scans per year.

Economic Feasibility:

The cost of this project is estimated to be $4,54M with the cost of the proposed unit being $3.32M alone.

The estimated gross charges that Erlanger proposes are much higher than the other providers in the area. Erlanger proposes to charge $5,280 per scan as their average gross charge. Two of the largest providers of PET/CT services in Chattanooga charge the following:

Plaza Radiology, LLC d/b/a Chattanooga Imaging	$3,800
Diagnostic PET/CT of Chattanooga	$3,885

Realistically, the reimbursement on these gross charges will be far less with average Medicare allowable being approximately $950 technical reimbursement per PET scan, with Tenncare reimbursement being even less at approximately $775 technical reimbursement. It has become far more difficult with declining reimbursements to economically make ends meet when it comes to PET/CT. This will become even more evident with the new governmental regulation, CMS Final Coverage Decision (CAG-00181R4), which went into effect June 2013, limiting Medicare patients to three (3) lifetime PET scans per cancer.

Erlanger's application states that they considered sharing arrangements but "other PET/CT providers do not share the same patient population" and that "it can cause programmatic disruption in the treatment of cancer patients and adversely impact cost and continuity of care". This is incorrect in that Plaza Radiology, LLC and the other PET/CT providers in the service share the same patient population, to include indigent care, and there is no disruption of PET/CT service to patients in the service area.

Orderly Development:

The applicant's project does not meet the orderly development of health care criteria. This is supported by the following:

1. PET/CT both as a technology, and a medical service, is well established and widely available in the service area. The applicant will not be introducing a new technology into the service area.

2. The five PET/CT scanners currently in operation in the service area are operating well below capacity. Introducing a sixth scanner into the service area will simply exacerbate the excess capacity that exists today.

3. The indigent/uninsured patient population is not under served by objective criteria. The applicant currently contracts with a local provider for these services and all PET/CT providers in the service area provide care to Tenncare and self-pay/indigent patients.

Plaza Radiology, LLC, d/b/a Chattanooga and Cleveland Imaging respectfully submits that the applicant does not meet the criteria to initiate services for PET/CT and respectfully requests that CON application CN1307-027 be **denied** and will present its arguments to the Board on September 25, 2013.

Sincerely,

Sue Kilpatrick

Sue Kilpatrick
Chief Operating Officer

LETTER OF INTENT
TENNESSEE HEALTH SERVICES & DEVELOPMENT AGENCY

2013 JUL 10 AM 9 10

The Publication of Intent is to be published in the Chattanooga Times Free Press, which is a newspaper of general circulation in Hamilton County, Tennessee, on or before July 10, 2013, for one day.

This is to provide official notice to the Health Services & Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601 *et. seq.*, and the Rules of the Health Services & Development Agency, that Erlanger Medical Center, owned by the Chattanooga-Hamilton County Hospital Authority D/B/A Erlanger Health System, with an ownership type of governmental, and to be managed by itself, intends to file an application for a Certificate of Need for a Positron Emission Tomography / Computed Tomography (PET/CT) Scanner. No other health care services will be initiated or discontinued.

The facility and equipment will be located in Erlanger Medical Center, at 975 East 3rd Street, Chattanooga, Hamilton County, Tennessee 37403. The total project cost is estimated to be $ 4,540,471.00.

The anticipated date of filing the application is July 15, 2013.

The contact person for this project is Joseph M. Winick, Sr. Vice President, Erlanger Health System, 975 East 3rd Street, Chattanooga, Tennessee 37403, and by phone at (423) 778-7274.

Joseph M. Winick	July 9, 2013	Joseph.Winick@erlanger.org
	Date:	E-Mail:

The Letter Of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services & Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

The published Letter Of Intent must contain the following statement pursuant to T.C.A. §68-11-1607(c)(1): (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF POLICY, PLANNING AND ASSESSMENT
OFFICE OF HEALTH STATISTICS
615-741-1954

DATE: September 1, 2013

APPLICANT: Erlanger Medical Center
975 3rd Street
Chattanooga, Tennessee 37403

CON# 1307-027

CONTACT PERSON: Joseph M. Winick, Sr. Vice President
975 3rd Street
Chattanooga, Tennessee 37403

COST: $4,307,699

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Policy, Planning, and Assessment, reviewed this certificate of need application for financial impact, TennCare participation, compliance with Tennessee's State Health Plan, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:
The applicant, Erlanger Medical Center, owned by the Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System seeks Certificate of Need (CON) approval for the acquisition of a positron emission tomography (PET/CT) scanner to be located at 975 East 3rd Street, Chattanooga, Tennessee. Erlanger Medical Center is the only tertiary service provider within 100 miles of Chattanooga, Tennessee. Erlanger qualifies as a safety net hospital as they provide service to all people regardless of their ability to pay and has the only "children's" hospital within 100 miles as well.

The applicant will purchase a Phillips Gemini TF Big Bore PET/CT unit at a cost of $2,216,323.85. The unit will be placed in the existing Outpatient Imaging Department, Nuclear Medicine area. The weight of the scanner necessitates structurally reinforcing the floor and will require renovation but no new construction. The renovations to the 1,858 square feet of space total $528,698 or $285.09 per square foot. The applicant's cost per square foot is slightly higher than 3rd quartile of $249 for hospital based construction as calculated by HSDA.

The total cost of the project is $4,307,699 and will be funded through cash reserves as indicated in a letter from the Chief Senior Vice President and Financial Officer in Attachment A-22.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in *Tennessee's State Health Plan.*

NEED:
The applicant's service area includes Bradley, Bledsoe, Grundy, Hamilton, Marion, McMinn, Meigs, Polk, Rhea, and Sequatchie counties. The applicant will also attract patients from Alabama, Georgia and North Carolina due to its position as a tertiary academic medical center.

The applicant's primary and secondary service area population projections are provided in the table below.

Primary and Secondary Service Area Population Projections for 2013 and 2017

County	2013 Population	2017 Population	% Increase/ (Decrease)
Bradley	102,235	106,448	4.1%
Bledsoe	12,698	12,579	-0.9%
Grundy	13,396	13,300	-0.7%
Hamilton	345,447	352,340	2.0%
Marion	28,448	28,880	1.5%
McMinn	53,004	53,956	1.0%
Meigs	12,064	12,559	1.8%
Polk	16,654	16,568	-0.5%
Rhea	32,966	34,480	4.6%
Sequatchie	14,756	15,747	6.7%
Total	**631,668**	**646,897**	**2.4%**

Source: *Tennessee Population Projections 2000-2020, June 2013 Revision, Tennessee Department of Health, Division of Policy, Planning, and Assessment*

Erlanger Medical Center (EMC) is the safety net hospital for Southeast Tennessee and needs to update and enhance its imaging capabilities in order to provide the best imaging services for the community and provide appropriate facilities to enhance the training and education of medical residents and fellows of the University of Tennessee College of Medicine, which is located on the EMC campus. Erlanger attracts patients from wide geographic area that includes Alabama, Georgia, and North Carolina and has transfer agreements with 92 facilities, including 40 hospitals.

Currently there is a gap in the diagnostic capabilities of service lines including neurosciences and oncology. EMC is recognized as a clinical leader in Southeast Tennessee and beyond, and its stroke program is recognized as one of the leading programs of its kind in the nation.

Erlanger has just recently recruited a top epileptologist to supplement its neurosciences program. Patients who suffer from strokes also may have seizures that a PET/CT could help gain insight into the causes and identify potential opportunities for surgical interventions and improve outcomes.

EMC also has a comprehensive oncology program that includes a Cyberknife that is utilized for non-evasive surgeries on tumors. The PET/CT could be used in diagnosis, assessment, and planning to ensure treatment plans are progressing to advance and improve patient outcomes.

EMC participates in the HHS 340B pharmacy in order to provide affordable care and access for the needy. EMC has a disproportionate share of low income patients and the 340B program serves to make needed chemotherapeutic drugs available to those who would not otherwise have access to life sustaining medications. Affordability is important to insuring access for this population. The proposed PET/CT is an essential diagnostic tool that is necessary to provide quality care, particularly to this underserved group.

Note to Agency Members: The 340B drug discount program is a voluntary program created by section 340B of the Public Health Service Act, 42 U.S.C. § 256b, and implemented through a pharmaceutical pricing agreement (PPA) between manufacturers and HHS. Manufacturers opt into the program by signing these agreements and assuming the obligations set forth in their terms, which are specified by statute and linked, in many respects, to the terms of the Medicaid drug rebate statute. At the core of the agreement is the obligation to charge covered entities no more than a statutory ceiling price for drugs covered by the statute, which are defined by the term "covered outpatient drug" in the Medicaid statute.

The applicant utilized two methods for evaluating the need for PET units in Southeast Tennessee compared to the entire state of Tennessee. The applicant presented data for 2009-2012 showing

the total number of scans for the entire state compared to scans for the proposed service area. According to the applicant's calculations, there is a disparity in the use rate of-6.7%, -9.0% and -9.6% each year, respectively.

In the second methodology, EMC estimates the need in the proposed service area by looking at the percentage of cases for incidence and prevalence in the service area. Incidence is the number of new cases of a disease and prevalence is the number of existing cases of a disease. The applicant estimates 1,055, 1,330, 1,604, and 1,653 scans in years one through four, respectively.

The table below shows the 2012 PET utilization for the applicant's proposed service area.

Service Area PET Utilization, 2012

Facility	County	Fixed Units	Procedures	Mobile Units	Procedures
Cleveland Radiology Associates	Bradley	0	0	1	398
Chattanooga Imaging East	Hamilton	1	527	0	0
Diagnostic PET/CT of Chattanooga	Hamilton	1	1,179	0	0
Memorial Hospital	Hamilton	1	720	0	0
Athens Regional Medical Center	McMinn	0	0	1	180
Cleveland Radiology Associates	Rhea	0	0	1	43
Total		**3**	**2,426**	**3**	**621**

Source: Health Services and Development Agency Equipment Registry

TENNCARE/MEDICARE ACCESS:
The applicant participates in the Medicare and Medicaid/TennCare programs and has contracts with BlueCare, TennCare Select, United Healthcare Community Plan, and AmeriGroup.

The applicant estimates Medicare revenues will be $2,787,944 and Medicaid revenues will be $3,569,413 in year one of the project.

ECONOMIC FACTORS/FINANCIAL FEASIBILITY:
The Department of Health, Division of Policy, Planning, and Assessment has reviewed the Project Costs Chart, the Historical Data Chart, and the Projected Data Chart to determine they are mathematically accurate and the projections are based on the applicant's anticipated level of utilization. The location of these charts may be found in the following specific locations in the Certificate of Need Application or the Supplemental material:

Project Costs Chart: The Project Costs Chart is located in Supplemental 1. The total estimated project cost is $4,307,699.

Historical Data Chart: The Historical Data Chart is located on page 50 of the application. The applicant reported (12,419,410), ($12,014,326), and ($26,760,089) each year, respectively.

Note to Agency Members: The applicant notes that the Income Statement includes depreciation and amortization that are simply accounting entries and not truly reflective of cash flow. The applicant followed the prescribed format but provided their adjusted cash flow calculation in Supplemental 1. The applicant's adjusted calculations are $14,526,832, $13,785,288, and ($190,711) each year, respectively.

Projected Data Chart: The Projected Data Chart is located on page 51 of the application. The applicant projects 1,055 scans in year one and 1,329 scans in year two with a net operating income of $550,270 and $583,911 each year, respectively.

The applicant's average gross charge in year one is projected to be $5,280 with an average deduction of $4,319, resulting in an average net charge of $961.

The applicant believes this project is the most practical and financially feasible way to enhance the imaging, academic training, and medical service line needs of EMC. No other alternatives were considered.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:
According to the applicant, the most significant relationship between this proposal and the existing healthcare system is that it will be a part of an existing health system and enhance Erlanger Health System's ability to integrate its services within the regional service area as the safety net provider, trauma center, and the region's only medical center.

By providing these services regardless of a patient's ability to pay, the regional healthcare delivery system is positively impacted by the services envisioned in the application.

The applicant currently has transfer arrangements with Erlanger North Hospital, T. C. Thompson Children's hospital, and Erlanger East Hospital. All of these hospitals are owned by Erlanger Health System. Further, Erlanger has patient transfer agreements in place with more than 90 hospitals and other providers in the four state areas, and another 21 transfer agreements currently in negotiation. These providers refer patients to Erlanger because of the depth and breadth of its programs and services. A copy of the list of transfer agreements is attached to the application.

The applicant states the effects of this proposal will be positive for the healthcare system because it will deliver the most appropriate level of care for those who are in need of surgical services regardless of ability to pay. By providing these services, the regional healthcare delivery system is positively impacted via modification of services proposed in this application.

The applicant will require 1.5 FTE staff for the PET/CT service.

Erlanger Health System, as the region's only academic medical center, has established strong long term relationships with the region's colleges, universities, and clinical programs. Erlanger provides clinical sites for internships and rotation programs in nursing, radiology, respiratory, pharmacy, and surgery technology, to name a few.

Further, affiliation with the University of Tennessee, College of Medicine includes training of senior medical students on clinical rotation as well as graduate medical education for training of residents and advanced fellowships in various specialties.

EMC is licensed by the Tennessee Department of Health, Board for Licensing Healthcare Facilities and accredited by The Joint Commission. The facility was surveyed on June 14, 2013

SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in Tennessee's State Health Plan.

PET Standards and Criteria

1. Applicants proposing a new stationary PET unit should project a minimum of at least 1,000 PET procedures in the first year of service, building to a minimum of 1,600 procedures per year by the second year of service and for every year thereafter.

   Providers proposing a mobile PET unit should project a minimum of at least 133 mobile PET procedures in the first year of service per day of operation per week, building to an

annual minimum of 320 procedures per day of operation per week by the second year of service and for every year thereafter. The minimum number of procedures for a mobile PET unit should not exceed a total of 1,600 procedures per year if the unit is operated more than five (5) days per week.

The application for mobile and stationary units should include projections of demographic patterns, including analysis of applicable population-based health status factors and estimated utilization by patient clinical diagnoses category (ICD-9).

For units with a combined utility, e.g., PET/CT units, only scans involving the PET function will count towards the minimum number of procedures.

The applicant utilized two methods for evaluating the need for PET units in Southeast Tennessee compared to the entire state of Tennessee. The applicant presented data from for 2009-2012 showing the total number of scans for the entire state compared to scans for the proposed service area. According to the applicant's calculations, there is a disparity in the use rate of-6.7%, -9.0% and -9.6% each year, respectively.

In the second methodology, EMC estimates the need in the proposed service area by looking at the percentage of cases for incidence and prevalence in the service area. Incidence is the number of new cases of a disease and prevalence is the number of existing cases of a disease. The applicant estimates 1,055, 1,330, 1,604, and 1,653 scans in years one through four respectively.

2. All providers applying for a proposed new PET unit should document that the proposed location is accessible to approximately 75% of the service area's population.

Applications that include non-Tennessee counties in their proposed service areas should provide evidence of the number of existing PET units that service the non-Tennessee counties and the impact on PET unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity.

The applicant's service area includes Bradley, Bledsoe, Grundy, Hamilton, Marion, McMinn, Meigs, Polk, Rhea, and Sequatchie counties. The applicant will also attract patients from Alabama, Georgia and North Carolina due to its position as a tertiary academic medical center.

The applicant's primary and secondary service area population projections are provided in the table below.

Primary and Secondary Service Area Population Projections for 2013 and 2017

County	2013 Population	2017 Population	% Increase/ (Decrease)
Bradley	*102,235*	*106,448*	4.1%
Bledsoe	*12,698*	*12,579*	-0.9%
Grundy	*13,396*	*13,300*	-0.7%
Hamilton	*345,447*	*352,340*	2.0%
Marion	*28,448*	*28,880*	1.5%
McMinn	*53,004*	*53,956*	1.0%
Meigs	*12,064*	*12,559*	1.8%
Polk	*16,654*	*16,568*	-0.5%
Rhea	*32,966*	*34,480*	4.6%
Sequatchie	*14,756*	*15,747*	6.7%
Total	***631,668***	***646,857***	**2.4%**

Source: Tennessee Population Projections 2000-2020, June 2013 Revision, Tennessee Department of Health, Division of Policy, Planning, and Assessment

3. All providers should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

The applicant argues that while other PET/CTs are present in the service area, not all patients have equal access to care. Many of Erlanger's patients are not in a position to economically access care. EMC's patient population is arguably not the same population as the other providers.

4. Any provider proposing a new mobile PET unit should demonstrate that it offers or has established referral agreements with providers that offer as a minimum, cancer treatment services, including radiation, medical and surgical oncology services.

Not applicable.

5. A need likely exists for one additional stationary PET unit in a service area when the combined average utilization of existing PET service providers is at or above 80% of the total capacity of 2,000 procedures during the most recent twelve month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per PET unit is based upon the following formula:

Stationary Units: Eight (8) procedures /day x 250 days/year = 2,000 procedures/year

Mobile Units: Eight (8) procedures /day x 50 days/year= 400 procedures/year

The applicant's methodology was based on the incidence and prevalence of certain conditions and diseases that would most likely require a PET scan to the number of scans in 2011. Based on this data, the applicant calculated the need for 2,867 scans.

The table below shows the 2012 PET utilization for the applicant's proposed service area.

Service Area PET Utilization, 2012

Facility	County	Fixed Units	Procedures	Mobile Units	Procedures
Cleveland Radiology Associates	Bradley	0	0	1	398
Chattanooga Imaging East	Hamilton	1	527	0	0
Diagnostic PET/CT of Chattanooga	Hamilton	1	1,179	0	0
Memorial Hospital	Hamilton	1	720	0	0
Athens Regional Medical Center	McMinn	0	0	1	180
Cleveland Radiology Associates	Rhea	0	0	1	43
Total		**3**	**2,426**	**3**	**621**

Source: Health Services and Development Agency Equipment Registry

As an academic medical center, with teaching and deep clinical expertise, EMC receives referrals from four states. Hospitals in the Southeast rely of the clinical skills of EMC staff to provide needed care. Many physicians also conduct clinical trials that utilize diagnostic imaging to support patient care and medical research. Currently, patients needing PET scans are referred elsewhere; negatively impacting the efficacy and continuity of care.

The applicant expects to have little impact on the existing PET providers because they draw their patients from a much larger service area, with a different patient population, and offers services not provided by other providers.

The provider should demonstrate that its acquisition of an additional stationary or mobile PET unit in the service area has the means to perform at least 1,000 stationary PET procedures or 133 mobile PET procedures per day of operation per week in the first full one-year period of service operations, and at least 1,600 stationary PET procedures or 320 mobile PET procedures per day of operation per week for every year thereafter.

6. The applicant should provide evidence that the PET unit is safe and effective for its proposed use.

a. The United States Food and Drug Administration (FDA) must certify the proposed PET unit for clinical use.

The FDA approval letter is attached to the application.

b. The applicant should demonstrate that the proposed PET procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

A letter from the architect is attached to the application attesting that the physical environment will conform to all applicable codes and standards is attached to the application.

c. The applicant should demonstrate how emergencies within the PET unit facility will be managed in conformity with accepted medical practice.

The applicant provides a copy of their policy pertaining to emergencies.

d. The applicant should establish protocols that assure that all clinical PET procedures performed are medically necessary and will not unnecessarily duplicate other services.

The applicant provides a copy of their policy pertaining to medically necessity.

e. The PET unit should be under the medical direction of a licensed physician. The applicant should provide documentation that attests to the nature and scope of the duties and responsibilities of the physician medical director. Clinical supervision and interpretation services must be provided by physicians who are licensed to practice medicine in the state of Tennessee and are board certified in Nuclear Medicine or Diagnostic Radiology. Licensure and oversight for the handling of medical isotopes and radiopharmaceuticals by the Tennessee Board of Pharmacy and/or the Tennessee Board of Medical Examiners—whichever is appropriate given the setting—is required. Those qualified physicians that provide interpretation services should have additional documented experience and training, credentialing, and/or board certification in the appropriate specialty and in the use and interpretation of PET procedures.

Dr. Pradeep Kumar's CV is attached to the application along with a copy of his license from the Tennessee Department of Environment and Conservation, Division of Radiological Health.

f. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

The applicant attached a copy of their transfer agreement to the application.

7. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

The applicant has and will continue to provide meet the data reporting requirements.

8. In light of Rule 0720-4-.01 (1), which lists the factors concerning need on which an application may be evaluated, the HSDA may decide to give special consideration to an applicant:

a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

All ten of the service area counties in Southeast Tennessee have been designated by HRSA as being medically underserved.

b. Who documents that the service area population experiences a prevalence, incidence and/or mortality from cancer, heart disease, neurological impairment or other clinical conditions applicable to PET unit services that is substantially higher than the State of Tennessee average;

The applicant utilized the Chronic Disease Health Profile from the Tennessee Department of Health, Office of Policy, Planning & and Assessment, Surveillance, Epidemiology, and Evaluation to derive the Age of Adjusted Mortality data to compare the mortality rate for each county in the service area. Six of the ten counties within the service area have mortality rates higher than the state of Tennessee as a whole for Heart Disease and Stroke. Five counties in the service area have higher age adjusted mortality rates higher than Tennessee for Cancer and Alzheimer's.

c. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program and/or is a comprehensive cancer diagnosis and treatment program as designated by the Tennessee Department of Health and/or the Tennessee Comprehensive Cancer Control Coalition; or

Erlanger is classified by the Bureau of TennCare as a "safety net hospital".

d. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program.

The applicant participates in the Medicare and Medicaid/TennCare programs and has contracts with BlueCare, TennCare Select, United Healthcare Community Plan, and AmeriGroup.